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|---|---|---|---|---|---|
| Austria | Sch22 | Indonesia | Rp3100 | Oman | Or 1 |
| Bahrain | Din0.750 | Iran | Rls210 | Philippines | Peso40 |
| Belgium | BFr50 | Israel | NIS3.50 | Portugal | Esc140 |
| Cyprus | C£0.90 | Italy | L2000 | Qatar | Qr9.00 |
| Denmrk | DKr10.00 | Jordan | Fils1000 | S.Arabia | Rls7.00 |
| Egypt | E£3.25 | Kuwait | Fils.500 | Singapore | S$4.10 |
| Finland | Fmk7.00 | Lebanon | £L400.00 | Spain | Pta145 |
| France | FFr7.00 | Lux | LFr50 | Sweden | SKr10 |
| Germany | DM2.30 | Malaysia | Rin4.25 | Switz | SFr2.40 |
| Greece | Dr130 | Morocco | Dh6.00 | Thailand | Bht50 |
| Hong Kong | HK$12 | Neth | Fl3.00 | Tunisia | Din0.800 |
| Iceland | Ikr125 | Nigeria | Naira10 | Turkey | L1200 |
| India | Rup15 | Norway | Nkr10.00 | UAE | Dh7.00 |

EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

No.30,997 Φ

Monday November 13 1989

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**NAMIBIA**

Whites cling to hope of Swapo defeat

Page 6


## World News

### El Salvador capital under attack from FMLN rebels

Left-wing FMLN guerrillas in El Salvador launched the biggest rebel offensive in 10 years in what appears to be developing into a nationwide offensive against the government.

At least 38 Salvadorean soldiers, civilians and guerrillas were killed and 130 people wounded as the international airport was closed following the shooting down of two army helicopters. Page 8

### Gonzalez loses vote

Spain's ruling Socialists lost their one-seat absolute majority when a recount of votes awarded a hotly contested seat in Murcia to the Communist-led United Left. Page 4

### La Pasionaria dies

Dolores Ibarruri, known as La Pasionaria, the legendary Spanish Communist from the Civil war period and later in exiled opposition against General Franco, died in Madrid at the age of 93.

### Moldavians riot

Soviet authorities declared a virtual state of emergency in the south-western republic of Moldavia after unprecedented nationalist demonstrations led to riots in the streets and the setting on fire of the republic's Interior Ministry headquarters. Page 22

### Israeli politics

Israel's once-dominant Labour party faces an important test of its strength today in elections for the leadership of the powerful Histadrut trade union federation. Page 6

### MITI tax plan stalled

Widely-publicised plan by Japan's Ministry of International Trade and Industry to offer tax concessions to Japanese companies to encourage purchases of foreign goods has been virtually stalled by the Ministry of Finance. Page 6

### Walesa arrives in US

Mr Lech Walesa, the shipyard electrician who led Solidarity's peaceful march to power in Poland, arrives in the US today in search of capital to ease his country's transition to a free market economy. Page 4

### Deaths in Natal

Four people were killed and at least six injured in a fresh outbreak of violence in South Africa's riot-torn Natal province.

### Ulster bomb blast

Bomb exploded in a Northern Ireland border village at the spot where people were to assemble for a Remembrance Sunday war memorial ceremony.

### Czech leader warns

Milos Jakes, Czechoslovakia's Communist Party leader, said party workers held their posts too long and should make way for a younger generation, but warned against street demonstrations as a method of forcing political change.

### Temples attacked

A crowd angry at the alleged desecration of a mosque in India attacked Hindu temples and shops in the Pakistani city of Sukkur. Page 6

### Bulgarian demands

Bulgaria's fledgling opposition groups intend to demand the resignation of the Politburo later this week, following the "retirement" of Todor Zhivkov last Friday. Page 4

### Peruvians vote

Peruvians ignored threats of Maoist guerrilla attacks and lined up for hours under tight security to vote in nationwide municipal elections.

### Clerics to keep arms

Moslem clerics in Beirut vowed that they would not disarm their militia under an internationally backed plan to end 14 years of civil war. Page 8

### Pothole fraud

The Irish fraud squad is investigating an organised ring that makes claims for malicious injuries after 11 people were found to have fallen into the same pothole in Cork, some of them more than once.

## Business Summary

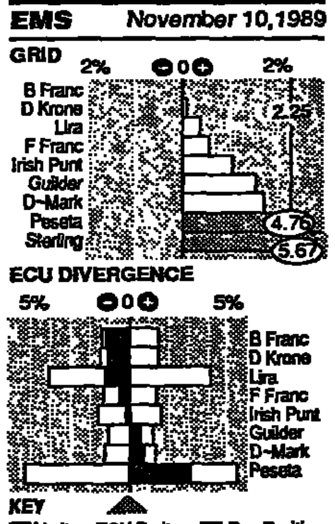
### British Telecom to spin off businesses

British Telecom is considering management buy-outs for several of its peripheral businesses to improve efficiency.

The largest of the businesses is the motor transport division, operating the biggest fleet of privately owned vehicles in Europe, but the reprographics division is likely to be the first to be spun off. Page 28

EUROPEAN Monetary System: Fear about the impact on the West German economy of an influx of refugees from East Germany was one factor depressing the D-Mark last week. Another was the willingness of the Bundesbank to provide funds below the prevailing market rate when injecting liquidity into the Frankfurt banking system. The strong D-Mark fell back, leaving the weaker members of the EMS trading comfortably within agreed limits, and easing pressure for any early realignment of the system.

**EMS** November 10,1989




*The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.*

CANADIAN competition tribunal: placed a new obstacle in the path of Imperial Oil's $4.15bn takeover of Texaco Canada by indicating it will not approve the merger under its present terms. Page 25

SOVIET foreign exchange auction: official results for the Soviet Union's first foreign exchange auction show some state enterprises paid 27 times official rates for hard currency; the average was 15 times the official rate. Page 4

LVMH: the increasingly acrimonious battle for control for the French drinks and luxury goods group, comes to a head this week in Paris courts amid allegations of fraud and efforts to remove Henry Racamier, leader of the Vuitton family shareholders, from his positions with the group. Page 22

FRENCH economy is showing continuing signs of strong expansion, with declining unemployment, and vigorous growth in the production and consumption of manufactured goods, the National Statistical Institute said. Page 8

J.P. Morgan: Dennis Weatherstone, an Englishman who left school at 16 and never went to university, was elected chairman and chief executive of J.P. Morgan, traditionally the most blue-blooded bank in the US. Page 8

MAN Nutzfahrzeuge, commercial vehicles subsidiary of MAN the W German engineering group, confirmed it is seeking to take over Enasa, Spanish state-owned commercial vehicles maker in a consortium with Daimler-Benz, its West German competitor. Page 25

MGM/UA Communications, Hollywood studio back on the market after a $1.5bn takeover deal with Qintex of Australia collapsed last month, reported a reduced loss for its fourth quarter. Page 25

EUROCHEQUE: Bank representatives from 20 countries in the Eurocheque system decided in principle to arrange for users to write cheques denominated in European Currency Units. Page 25

JAPANESE steelmakers: Profits of Japan's big integrated steelmakers mostly continued to surge in the first half of the 1989-90 fiscal year against a background of strong domestic and overseas demand, increasing benefits from rationalisation and the weakening yen. Page 25

KOHL URGES EC ROLE IN REFORM ● GERMAN LEADERS TO MEET ● NEW FORUM CRITICISES COMMUNIST TACTICS

# Pressure mounts on E Germany to fix timetable for free elections

By Leslie Colitt and David Marsh in West Berlin and David Goodhart in Bonn

PRESSURE is mounting on the East German Government from within its own ranks and from outside the country to decide a fixed timetable for free elections.

Mr Helmut Kohl, the West German Chancellor, has called upon the European Community to play a leading role in promoting reform in East Germany. But he has maintained that free elections soon are a condition for extra economic aid.

Calls for elections are also now coming from within the ranks of the East German leader Mr Egon Krenz's ruling Socialist Unity Party (SED). In an indication of the internal turmoil, one of Mr Krenz's new Politburo appointees was yesterday sacked by the local party. The Politburo yesterday also bowed to demands for a party congress next month with the powers to sweep away the present leadership.

Mr Kohl, in a further attempt to dampen fears of a resurgent, reunified Germany breaking its ties with the West, emphasised at the weekend: "Our partners in the EC are called upon to support economic reform in East Germany, since we are dealing with joint European responsibility – as with Hungary and Poland."

The West German Chancellor, who flew back to Poland yesterday after interrupting his visit because of recent events, has already suggested that East Germany should be a central topic at next month's EC summit in Strasbourg.

The first meeting between Mr Kohl and Mr Krenz was fixed over the weekend for shortly before Christmas. It will be followed by talks with Mr Hans Modrow, the reformist leader expected soon to become East German Prime Minister.

An East German excavator demolishes a stretch of the Berlin Wall to make way for a new crossing point at Potsdamer Platz

Mr Kohl said that he expected "to learn of the concrete steps which the East German leadership had decided to take. Above all, we wish to ascertain how they propose to conduct free elections, which have already been announced, and within which period these should be realised."


● US vows not to "take advantage", Page 2
● Facing the industrial wall, Page 2
● Shoppers carry the flags of freedom, Page 3
● When the cheering dies down, Page 3


Many East Germans are unconvinced of Mr Krenz's sincerity about free elections, which he said last week would be held in 1991. Mr Jens Reich, a co-founder of New Forum, the largest opposition group, said the party's plan to cling to power with the help of its allied "block parties" appeared to be a tactical move to avoid genuinely free elections.

The group believes demonstrations must continue to maintain the momentum. A further mass procession is planned in Leipzig this evening, to coincide with a session of the Volkskammer, or Assembly, today, which must approve a new government.

Mr Krenz received another blow to his authority yesterday – after three days which have seen an estimated 4m East Germans crossing to West Germany – when Mr Werner Eberlein, a key Politburo appointee, was sacked by his

Continued on Page 22

# Peace punches holes in the Wall

By David Marsh, Leslie Colitt and John Lloyd

FLANKED BY jostling East and West German border guards, and surrounded by cheering flower-waving crowds, West German President Richard von Weizsäcker yesterday surveyed what was left of the Berlin Wall.

Mr Weizsäcker's visit to a new border crossing point at the Potsdamer Platz in the heart of Berlin, punched through by East Berlin soldiers yesterday, was the highlight of a day of joy and bewilderment as 800,000 East Berliners poured West.

The President chatted with tearful East and West Berliners and shook hands with East German frontier guards, whose job up to last week was to stop and if necessary shoot, escapees. "It is a jubilant moment," he proclaimed.

Behind the President and Mr Walter Momper, the bald and smiling mayor of West Berlin, stood eight slabs of the Wall removed overnight by mobile cranes, propped up by the side of the gash in the Wall.

Since East Germany opened its borders on Thursday to take pressure off the embattled regime, an estimated 2m East Berliners have crossed on trips to the West – with all but an estimated 23,000 returning.

A similar number have traversed the East-West German frontier, with queues of battered East German Trabant and Wartburg cars up to 40 miles long at border crossings.

Yesterday in East Berlin the crowds that had queued for hours on Friday and Saturday at the Friedrichstrasse station and at other crossings abated significantly.

In East Berlin the police were on a charm offensive, competing with each other to explain regulations, help old ladies up the steps of the S-Bahn and stamping travel visas as fast as they could.

In West Berlin the weekend saw the largest outpouring of peaceful emotions in Germany for more than a century – since the celebrations at the Brandenburg Gate when Germany was unified under Bismarck in 1871. The mood was symbolised by a beaming East German girl sitting on a West German BMW in the centre of Berlin last night. Scrawled on a cardboard sign on her back were the initials

Continued on Page 22

# Delors hints at special Community embrace

By David Buchan in Brussels

THE EUROPEAN Community could embrace East Germany and still complete its march towards political unity, Mr Jacques Delors, the Commission president, suggested yesterday.

Speaking on West German television, Mr Delors said East Germany's membership of the Community was up to its people to decide, "weighing up the pros and cons . . . and in the light of the constraints of history."

He was confident that West Germany "wishes to continue with the other [EC] countries, with all Germans, to go towards not only an economic Europe but towards the political unity of Europe."

Mr Delors was speaking on the eve of today's meeting of EC finance ministers which is due to lay the ground for a first-stage move next year towards an eventual Economic and Monetary Union (Emu).

Broad agreement on short-term changes in Community economic and monetary policy co-ordination is expected, but the puncturing of the Berlin Wall and its ramifications for relations between the two halves of Germany has placed a questionmark over how far and how fast Bonn may want to join its partners in further steps to Emu.

At a special weekend meeting, the 17-member Commission found itself forced by events to revise its previous stance that Community integration should be deepened, before it could be widened, by the admission of new member countries.

It agreed that East Germany differed from all other potential applicants for EC membership. The line, already taken publicly last week by Sir Leon Brittan, the senior British Commissioner, to the effect that the Community should "warmly welcome" East Germany if it were to come in as part of a liberal, democratic union with West Germany, seems to have found some favour among his Brussels colleagues, even Mr Delors.

Any lowering of Community sights on Emu will suit the UK Government. Mr John Major, Britain's Chancellor of the Exchequer, is due to present his plan for 12 competing and converging monetary policies as an alternative to the Delors plan for a single European central bank system running a single currency.

Mr Douglas Hurd, Britain's Foreign Secretary, gave the UK money plan its first airing to


Continued on Page 22
Lombard, Page 21


# London plans clearing system for international bond issues

By Rachel Johnson in London

THE London Stock Exchange and the Bank of England are in discussions to establish a central bond office to clear sterling international bond issues in London and attract business normally done in Brussels and Luxembourg.

This move would underscore the Bank's determination that London should not lose its pre-eminence as a financial centre. The City's clearing systems have been criticised for being old-fashioned and inadequate.

A Stock Exchange committee, chaired by Mr George Nissen, a director of Morgan Grenfell, the merchant bank, is to deliver a report to the Stock Exchange Council on a central bond office early in the New Year.

The office – which could be placed next to the Bank's Central Gilts Office or be part of the Stock Exchange's Taurus settlement system – would probably be linked to the continental clearing houses. The hope is the computerised clearing system would help improve liquidity and transparency in the eurosterling market.

The discussions are supported by the Bank of England and are in response to a market recognition that tighter controls over clearing and settlement could eventually increase business.

This would also allow City of London financial institutions to maintain close contact with the rapidly expanding UK corporate bond market, the rapid growth of which has been a by-product of the shrinkage in the gilts (British government bonds) market. The government's budget surplus in recent years has led it to stop issuing its own bonds – gilts – leaving room for the previously-underdeveloped corporate bond market to expand.

UK government and other domestic bonds are cleared in London, but there is no London clearing house yet for sterling bonds issued in the international market. Settlement takes place at established clearing houses, Euroclear in Brussels, and Cedel in Luxembourg, where payment is made and securities delivered.

Mr Nissen said a London clearing for international sterling bond issues "would have to be impeccable and very carefully designed. Transactions would be settled on screen without certificates changing hands."

To compete with Cedel and Euroclear, any central bond office in London will have to be as efficient as, but cheaper than the continental houses, according to Euroclear.

The proposal for a bond clearing system is likely to be welcomed by the market, which would like to assure investors quality control as well as high yields.

"Euroclear is a slick and not terribly expensive operation. But this idea makes sense. Eurobonds have no natural home and the eurosterling market is primarily in London," said Mr Charles Eglington, head of settlement at Warburg Securities.

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Mrs Violeta Chamorro, in the first serious challenge to Daniel Ortega, Nicaragua's left-wing president, admits her political credentials are not her own but those of her dead husband Page 44




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## GERMANY

# US will not seek advantage, says Baker

By Lionel Barber in Washington

THE US will not seek unilateral advantage during the present upheaval in Eastern Europe, Mr James Baker, US Secretary of State, said yesterday.

Mr Baker said the US welcomed the dismantling of the Berlin Wall as the most significant event in East-West relations in 40 years, but stressed that Washington was concerned not to promote instability in the Soviet bloc.

It was "premature" to talk of German reunification before free elections had taken place and progress had been made toward a free market economy. He did not believe Moscow would use force to arrest the reform process in East Germany or elsewhere. "They have made it very clear in private conversations they will not use force. To do so would mean perestroika has failed." But he believed Moscow had drawn a line on reform "for the time being" on membership of the Warsaw Pact.

President Mikhail Gorbachev, the Soviet leader, cabled President George Bush on Friday underscoring "the importance of the changes taking place in East Germany" and expressing "the hope that the situation will remain calm and peaceful," White House officials said. While seeking to reassure the Soviet Union, the Bush administration spoke out in favour of the changes in East Germany, describing them as "dramatic, significant and remarkable" – a contrast with Mr Bush's initial low-key response last week.

Mr Bush has sounded more positive about Mr Gorbachev and his reform programme, declaring perestroika to be irreversible. He said it was "time to talk" with Mr Gorbachev about how the US can help the Soviet economy.

The two superpower leaders are to meet off Malta early next month. Mr Bush's comments suggest Soviet economic reform, and the East European upheaval, will be high on the agenda.

Mr Richard Cheney, US Defence Secretary, said the US should not offer "any material assistance" to Moscow while the Soviet Union, either directly or through client states, fomented unrest in Central America and elsewhere.

US talks are likely with West European allies in the next few weeks, probably after the Malta meeting. Mr Baker spoke with Mr Hans-Dietrich Genscher, West German Foreign Minister, at the end of last week. Mr Bush has been in touch with West German Chancellor Helmut Kohl about his forthcoming meeting with Mr Egon Krenz, East German party leader.

# Industry 'will still be geared to the West'

By David Marsh in West Berlin

MR Tyll Necker, president of the West German Industry Federation (BDI), accompanying Chancellor Helmut Kohl on his visit to Poland on Friday, was anxious to project one basic message over the tumultuous events in East Germany.

"Tell your readers that industry in the Federal Republic will not be diverted from the West by what is happening," he said.

The comforting remark had an understandable background motive. Few senior West German industrialists talk openly about re-unification – because of worries that partners abroad will be frightened about increased German economic dominance.

None the less, the political earthquake in East Germany seems to be ushering in a sequence of events which could, sooner or later, weld together the two Germanys in an alliance changing the industrial contours of Europe.

At the moment, economic collaboration between the two German states is relatively limited. Trade between the two makes up only 1.5 per cent of the Federal Republic's overall exports and imports, dwarfed by the more-than-half of West Germany's total trade carried out with the European Community.

Top West German managers say that, in dealing with East Berlin in the past, it has often been a disadvantage to come from Munich or Frankfurt, compared with Paris or Vienna.

All this could now change. East Germany's gross national product is only about one-tenth of West Germany's. Addition of this extra weight would make little difference, over the short term, to the Federal Republic's industrial prowess.

But a move to re-unification would certainly divert Germany's economic pre-occupations from the West to the East. Already, the Federal Republic accounts for 25 per cent of Western Europe's Gross National Product.

After a transitional period, during which West Germany would re-direct financial, training, engineering and management resources to the East, the manufacturing muscle of a re-forged Germany could easily top that of France, the UK and Italy combined.

Nearly all top West German companies have long industrial traditions. Eight of the biggest German corporations were founded in the 19th century. A large number of them, as the map shows, have old-established attachments to manufacturing sites in the East.

Most of these have been dismantled or ruined, or have fallen heavily behind their competitors in the West since World War II. Along with rebuilding East Germany's tattered towns and infrastructure, re-vitalising these Eastern installations would pose a major challenge for the West Germans.

However, as the world's second largest creditor (after Japan), with a net foreign credit position of more than $200bn, the Federal Republic has the financial wherewithal to manage the transition.

Mr Klaus Leciejewski, a former East German Communist Party member who now works as an economic specialist in West Germany, says he sees re-unification and the introduction of the D-Mark into East Germany as almost inevitable consequences of the past few days' events.

Currency reform in the East would not only be essential for the East German economy. A replacement of the inconvertible East German Mark, currently worth only around 10.5 West German pfennigs, would also give West Germany control over the potentially-inflationary impact of a construction and investment boom in the East.

Such a step would certainly change totally the debate over monetary union in the European Community. It would have an intriguing effect on the Bundesbank. The founding statutes of the West German central bank lay down that its headquarters in Frankfurt is only provisional, pending an eventual move to Berlin on German re-unification.

Mr Eckart van Hooven, a board member of the Deutsche Bank, who was born on the border between Pomerania and Mecklenburg in what is now East Germany, called at the weekend for West German companies to offer help to East German companies. Areas of co-operation would range from technology and accounting to marketing and export skills.

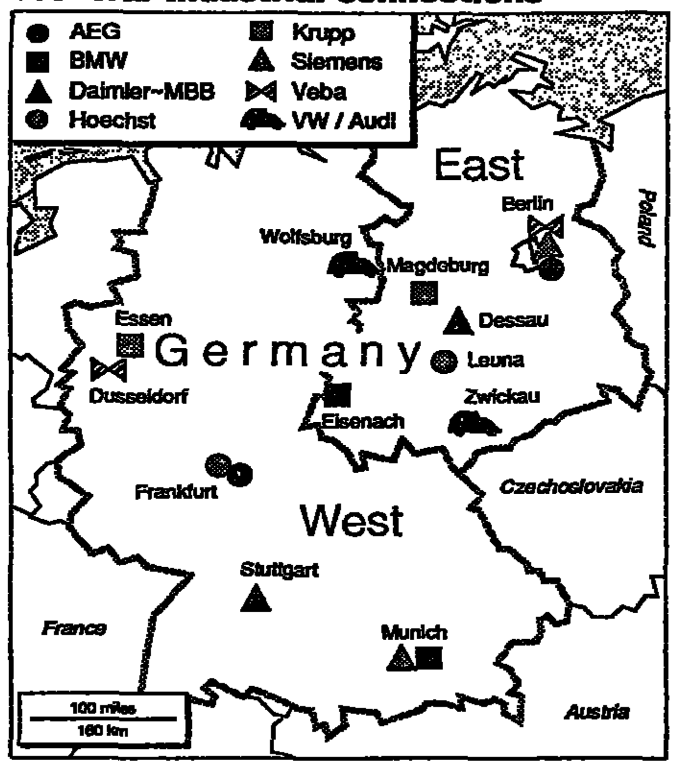
All this woulld increase flows to the East of foreign exchange needed for East Germans to travel abroad, Mr van Hooven said.

Mr Hans-Peter Fröhlich, an economist at the Institut der Deutschen Wirtschaft, based in Cologne, says the German economy is likely to become less export-oriented as resources flow to the East.

He points out, however, that Bonn has often been criticised by foreign partners for relying too much on exports and not enough on domestic demand.

Although such a development might not directly cut West Germany's transfers to the EC, increased attention on the East will certainly be a distraction for Bonn, Mr Fröhlich adds. "Money which goes to Berlin cannot go to Lisbon," he points out.

**Pre-War industrial connections**




# W German parties continue to squabble

By David Goodhart in Bonn

THE events of the past few days may have made the German people the happiest in the world, as Mr Walter Momper, West Berlin mayor, told the noisy crowd outside his town hall on Friday evening. But they have also provoked some unusually vituperative party political strife in West Germany.

The subject matter of the strife, primarily between the ruling Christian Democrats and opposition Social Democrats, is deciding on the most appropriate political forum for handling the momentous events.

Some of the bad temper seems to stem from that Friday evening rally in West Berlin, when Mr Momper and Mr Willy Brandt, his Social Democrat colleague, were greeted with cheers by the mainly left-wing crowd, and Mr Helmut Kohl, the Chancellor, was barely audible above the jeers and whistles.

Mr Kohl was clearly irritated by his treatment and angrily rejected an offer from Mr Momper to quieten the crowd.

His personal pique was overlaid by differences over the politics of German unity and statehood – differences which often seem somewhat scholastic to outsiders.

At the same press conference, Mr Kohl said that Mr Momper "speaks a different language from me", referring to the fact that the Berlin mayor had referred in his speech to "people from the GDR" instead of simply Germans. Later, Mr Kohl let it be known that his reproach was directed at the whole SPD and not merely Mr Momper.

Mr Momper struck back at Mr Kohl on Saturday night, speaking of his failure to rise to the occasion at this great moment in German history.

The SPD's pique stems from Mr Kohl's rejection of a "round table" of all political parties and important social institutions, to work out a collective reaction to both the political change in East Germany and the integration of East German emigrants into West German society.

# 'Now we can be a single family – together again'

By David Goodhart

MRS Gisela Runge, 49, belongs to one of the tens of thousands of divided Berlin families who have special reason to celebrate the fall of the Wall. Her sister, Ingrid, 51, has been stuck on the eastern side for 28 years.

"Now I can just leave the key under the mat for her and she will be in my flat when I get back this afternoon," says Gisela.

"Berlin is beginning to feel like a single city again and we can be a single family too. It is so emotional for me and my sister. Our children are excited too but they don't really understand because they have only ever known the Wall, they don't remember the trauma of division," she adds.

**'Our children are excited too, but they don't understand. They don't remember the trauma of division'**

The end of the Wall has released memories of its beginning. Gisela was a 21-year-old on holiday on the island of Elba when she read about the building of the wall in an Italian newspaper and thought the reporter had misunderstood.

When all the other Germans on the island started to pack their bags and head home she realised it was true and that she might not be seeing her sister – already married and living in the eastern zone of the city – for a long time.

Gisela also vividly remembers the first visit to East Berlin. It was Christmas two years later, five days after Gisela had given birth to her second child.

"Crossing over, I had to stand in line for eight hours with my baby daughter and 1½-year old son, but it was the happiest Christmas I ever had," she recalls.

Recently, Ingrid has been able to travel to West Berlin more frequently, as she is a multiple sclerosis sufferer and has taken early retirement. But she was still only allowed a certain number of visit days per year and could not bring her family.

People who say the East Berlin government should have started on internal reform before travel reform do not understand the humiliation of being cooped up, says Gisela.

"Travel reform was the only way the government over there could start to win back some trust."

Gisela, who lives only 50 metres from the Wall in Töpchiner Way, says she always knew the wall would come down one day but had not expected it before the year 2000. "It was even more unexpected for Ingrid. I rang her late on Thursday night and she had already gone to bed and did not believe me," says Gisela. She believed her the next morning, and came straight over.

The next step, says Gisela, is for the governments of West and East Germany to get together to resolve the problem of financing East Germans' trips west.

"It is no good having travel freedom if people have no West-marks, it will just exacerbate the two-class society in the East – those with and those without West-marks," she warns.

She suggests that the governments could agree to subsidise jointly an acceptable exchange rate of perhaps three or four East-marks for every West-mark.

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## GERMANY

# Shopping bag becomes a flag of freedom for visiting East Germans

**John Lloyd** reports on a tide of consumption as East Germans celebrate the opening of the borders

THE LEIPZIG Opera gave Fidelio on Saturday night. Can the Prisoners' Chorus have found a better time or place?

Oh what joy, to breathe freely the open air,
Up here alone is life,
The dungeon is a tomb
Oh freedom! Will you come again?
Hope whispers softly to me,
With all our faith, we'll trust in heaven's aid
We shall be free, we shall find peace
(Speak softly, be careful!
Ears and eyes are on us):

*Oh Freiheit! Kerft du zurück?* Can you imagine how Beethoven's only opera went down, two days and nights after the mingling of the two Germanys?

Perhaps you cannot: for it went down rather tepidly in a half-empty house. Freedom on the march was not on the stage: it was in the streets and the stations. And in the stations and streets of the cities of the German Democratic Republic this past weekend were the masses, staggering back, puffy-faced from West Berlin, their swollen hands clutching their new possession. The flag of freedom – it was everywhere –, was the plastic carrier-bag.

They flowed out of Friedrichstrasse station, in East Berlin, in the early evening of Saturday; out of the S-Bahn; which had brought them back across the open border, back on to the trains to take them out to their suburban streets.

Their bags were from Bilka and Heinz Goldschmidt and Kaiser's Drugstore and Guten Morgen Berlin and Kaufmarket and Woolworth. They bore Sonys and Panasonics and Phillips: home computers and audio tape-recorders and CD-players and toys for the kids. They carried copies of Bild, the popular paper: on the back page a story taking the rise out of the Trabant, the dreadful two-stroke, air-fouling bone-shaker, which is as much the symbol of the East German exodus as the plastic bag is of re-entry: its headline – "The mule says to the Trabi – if you're a car, I am a horse."

Oh what joy, to shop until you're broke! In the S-Bahn out from Friedrichstrasse to Königswusterhausen, through the narrow strip of East Berlin between the Spree and the wall, some kids turned on their new Panasonic stereo and a Best of the Beatles tape brought working-class Liverpool down through a quarter of a century to the East Berlin proletariat rattling through Nieder Schöneweide.

Love, love me do
You know I love you
I'll always be true
So plee-ee-ee-eese
Love me do

The kids got off at Schöneweide station, together with half the train-load, people hauling the carrier-bags up across the Spree and down Wilhelmine Hof, past the Karl Liebknecht generator works and into the doorways of the housing blocks, the Panasonic still in good voice, the echo of the hallway giving added poignancy to:

All the lonely people
Where do they all come from?
All the lonely people
Where do they all belong?

Up one of these streets, in the hall of the scruffy Christuskirche, another class of East Germany was meeting. The New Forum, newest and perhaps hardest to understand of Eastern Europe's movements from below, was holding its first national conference. Delegates from all over the state had gathered to begin discussions on a programme and on the status and leadership of the movement.

New Forum presents itself as a movement of serious intellectuals akin to the West German Greens, anti-Communist and anti-capitalist, eschewing charisma, claiming the force only of morality and democracy. They have nothing of the homely religious populism of Solidarity and little of the schismatic intensity of the Hungarian opposition. They seek, rather, to take the essence of socialism's ideals and give it new expression with the aid of pluralism and a self-conscious modestly.

Neither the regime nor the opposition has expressed great joy over the opening of the border

Dr Jenz Reich, a biologist and one of its prominent members (it cannot have leaders), expressed in an interview, with an entire lack of a politician's blandness, the movement's purpose.

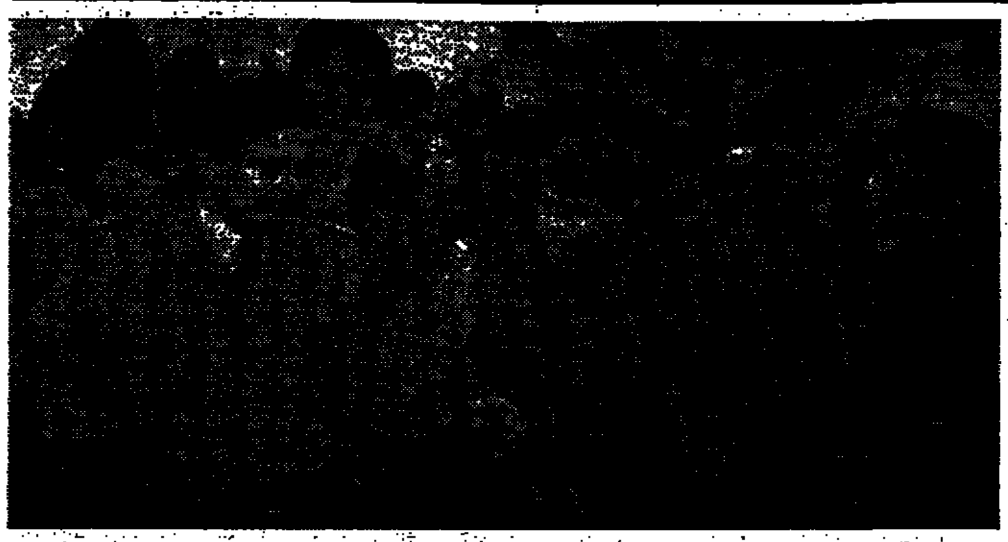
It is, now more than ever, to renew East Germany, not to unite it with the West: to retain a separateness in part because "some of the ideals of socialism will prevail here – I think it's deeper here than in some of the other Socialist countries": in part because of the negative experience of a Greater Germany – "better to stay with different German-speaking states – Switzerland, Austria, West and East Germany... to have a German super-power here in the middle of Europe will bring forward tendencies of nationalism... we should be a united German nation in culture but we should resist the step of becoming a united country."

He was glad the border was down. But he feared the tide of consumption: distrusted the lure of the West, thought its reality was a society in which the comfortable majority marginalised the minority of the poor. "You must steer against the tendency to over-estimate [the importance of] the standard of living... freedom is a risk".

It is curious, but a fact, that neither the regime nor the opposition has expressed great joy over the opening of the border. The Socialist Unity Party's rally on Friday night heard one or two sour jokes about it: New Forum treats it as welcome but almost as an irrelevance. They are not moved by the simple Volkisch-ness of the embraces in the West Berlin streets or on the wall above the Brandenburg Gate on that first chaotic Thursday night: still less by the wonder of Woolworth. We stay here! they insist: and right they are.

But the masses were, at least in this first flush, both Volkisch and spendthrift. The hands gouged by the plastic-bag handles were workers' hands, heavy and clumsy with manual labour. The servile masses arise... to shop, to fill out their own worlds with a few more of their own things. Their lives, and thus their calculations, are harder than those who seek to give freedom a base.

*Oh Freiheit! Kerft du zurück?* Maybe, maybe not. Quick! Stock up while you can. Ears and eyes may be on us again. Roll over, Beethoven.



East German guards and West German police exchange caps at the Potsdamer Platz crossing

# Immigrants and hosts ponder the economic fall-out

By Leslie Colitt in West Berlin

TENS of thousands of East Germans who poured across the newly-opened Unity Bridge from Potsdam into West Berlin last weekend were welcomed with flowers and madly-applauding Westerners lining both sides of the Königsstrasse, which led nowhere for 40 years.

But Germans on both sides were asking what the economic consequences of the mass influx would be when the cheering died down.

"We don't want to depend on charity from West Germany," said a car mechanic from Leipzig who had driven his 26-year-old Skoda into West Berlin on his first visit ever to the West. He stood in a Post Office queue of thousands of fellow East Germans waiting to pick up their DM100 (£31) welcome money from Bonn.

The exchange rate of the GDR Mark to the D-Mark posted at exchange bureaux in West Berlin told the story. It was DM10.50 for 100 Marks with the portrait of Karl Marx on them.

This came as a shock to the visiting East Germans and will be one of the biggest economic challenges for their government in coming months.

"It will put enormous pressure for economic reform on our system," a visiting East Berlin university lecturer noted.

People who had now seen the abundance of the West with their own eyes would return and ask why their own system had been unable to provide the same, despite a hard-working population, he said.

But achieving convertibility for the GDR Mark was a long-range goal. "The most urgent problem is to get an affordable exchange rate for the GDR Mark," West Berlin's Mayor, Mr Walter Momper, said yesterday.

The Bonn government hinted it might help prop up the soft Mark on the black market if East Germany was ready to contribute hard currency out of its large intake of D-Marks from Westerners forced to exchange DM30 to enter the country.

The impact on the East German economy of the re-opened borders to the West will be far-reaching.

The radio and TV industry may soon be left sitting on months of unsold production as East Germans shun their own inferior electronic products and buy what they can in the West.

A development engineer from outside East Berlin said the central planners had poured Marks 14bn into memory chip production while ignoring development of essential switching circuits. "We should have bought the chips from the West and found a niche in which to specialise," he said.

Many East Germans who live in the Greater Berlin area are seriously thinking of working in West Berlin to earn coveted D-Marks to spend on consumer goods. Before the Wall was built, more than 50,000 Easterners worked in West Berlin and lived in the East.

But now West Berlin has more than 90,000 unemployed of its own and East Germans entering the labour market could cause serious friction in West Berlin, Mr Werner Kolhoff, the city government spokesman, said.

East Germany is in even less of a position to allow its citizens to work in the West after the enormous manpower drain caused by the exodus to the West in recent months.

The political pressures of the opening on the East German leadership are no less enormous.

Easterners were bringing home hundreds of thousands of copies of West Berlin newspapers distributed free of charge to them on the streets of West Berlin.

Seeing the diverse demonstrations in the city, by Marxist fundamentalists waving banners with Mao on them and right-wingers with torches, was a taste of the open society many East Germans wanted for themselves.

# Krenz struggling to hold Communist Party together

By Leslie Colitt in East Berlin

MR EGON KRENZ, the embattled East German leader, is groping for support from the West German Government and fighting to prevent his communist Socialist Unity Party from tearing apart at the seams.

Still driven by pressure from below, the politburo yesterday bowed to calls from within its own ranks for a party congress next month with the powers to sweep away the entire present leadership.

In a bid to boost his credibility among East Germans he said he had "intensive talks" by telephone on Saturday with West German Chancellor Helmut Kohl on the economy, environment and humanitarian questions. Mr Kohl, in a separate statement, said he told Mr Krenz that Bonn was prepared to offer aid to improve living conditions for East Germans so that people would not "leave their ancestral home".

The conditions, however, could be life-threatening for the SED (Socialist) party, which is grappling with a wholesale defection of members. Bonn's aid would depend on East Germany holding free elections and introducing elements of a socially-oriented market economy, Mr Kohl said.

Many East Germans, however, were unconvinced of Mr Krenz's sincerity about free elections, which he said last week would be held in 1991. Mr Jens Reich, a co-founder of New Forum, the largest opposition group, said the party's plan to cling to power with the help of its allied "block parties" appeared to be a tactical move to avoid genuinely free elections.

The East German leader was faced with a revolt within the ranks of his party. Mr Werner Pletsch, an SED member in Leipzig, told East German TV that he took along his membership book to an emergency meeting of the party at the weekend. "I don't know whether I'll leave with it," he said forcefully.

The winds of change sweeping East Germany toward democracy have been throwing the once monolithic party into turmoil. Party meetings throughout the country are exposing the leadership to the full wrath of middle and lower-ranking officials and members. For decades they were as isolated from the central committee and the ruling politburo as the rest of the population.

Mass meetings of members of the SED over the weekend; in Leipzig, Frankfurt on Oder and other centres, revealed a widespread radicalisation in party ranks with a commitment to complete renewal – the slogan which Mr Krenz has striven to make his own.

The leadership's plan to hold a party conference in mid-December was torn apart by rank-and-file members who insisted on a full-dress party congress at which they could purge the central committee of conservatives and get a new politburo elected. They want Mr Hans Modrow, the reform-minded party leader of Dresden District, who joined the politburo only last week, to replace the unpopular Mr Krenz.

Party members wearing the SED clasped-hands-emblem were being "insulted and abused" in trams and buses, the East Berlin party newspaper Berliner Zeitung noted.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NOTICE TO SHAREHOLDERS

Shareholders are referred to the announcement dated 29 April 1988 wherein they were advised that Implats had, subject to certain conditions precedent, reached agreement in terms of which Implats would acquire 55% of Sankorp's shareholding in Messina on the basis of 50 ordinary shares in Implats plus R175 cash for every 100 Messina ordinary shares and/or preference shares and that Implats had undertaken to make an offer to the minority shareholders to acquire 55% of their shareholding on the same terms.

Implats has, after due consideration of the favourable progress which has been made on the finalisation of the mineral leases for the Messina platinum venture, decided to waive the outstanding condition precedent and to make the offer unconditional.

In view of the delay in finalising the conditions precedent to the agreement, Implats has adjusted its offer in accordance with the agreement, to account for the dividend payments made by both Implats and Messina in the interim and accordingly now offers 50 ordinary shares in Implats plus R253 cash for every 100 Messina ordinary shares and/or preference shares. This places the accepting Messina shareholder in the same position as he would have been, had the offer been made unconditional when it was first announced in that he would have received dividends from Implats and not from Messina over the intervening period.

Circulars will be posted to shareholders as soon as possible.

Johannesburg, 13 November 1989

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## OVERSEAS NEWS

# Walesa comes to the US in search of capital

By Lionel Barber in Washington

MR LECH WALESA, the shipyard electrician who led Solidarity's peaceful march to power in Poland, arrives in the US today in search of American capital to ease his country's transition to a democratic free market economy.

His week-long trip includes meetings with US trade union leaders; dinner at the White House with President George Bush; and, on Wednesday, an address to a joint session of Congress, an honour previously reserved to only two non-heads of government – Winston Churchill and the Marquis de Lafayette, the French hero of the American Revolution.

As the incarnation of the democratic forces sweeping Eastern Europe, Mr Walesa is sure of a hero's welcome. The question is whether, on his first-ever trip to the Western Hemisphere, he risks over-estimating the role the US intends to play in resolving Poland's economic crisis.

Forty years ago, the Truman Administration produced the Marshall Plan to rebuild post-war Europe. Today, the Bush Administration has let the European Community take the lead in co-ordinating aid to reformist Poland and Hungary. It is a politically significant gesture, but reflects a desire not to antagonise the Soviet Union and America's own domestic budget constraints.

Today, in Mr Bush's words, the US has "more will than wallet." In July, during his trip to Eastern Europe, the President offered $119m (£74m) in industrial, environmental and food aid to Poland. The sum has since increased to about $450m over three years, but only after Congressional pressure fuelled by the those like Senator Paul Simon, who has a large Polish-American constituency in his native Illinois.

The rival Congressional package is worth about $950m over the same period. This year's (fiscal 1990) aid, though held hostage to partisan manoeuvring on Capitol Hill, could be worth $500m. About half the sum would be in cash, with the rest made up of credits and insurance that might not ever reach Poland.

The package includes $200m for an economic stabilisation grant requested by Mr Bush; $200m for an export subsidy loan (a questionable item since Poland is hardly creditworthy at the moment); as well as $40m worth of investment risk to be taken on by the Overseas Private Investment Corporation and $20m for cleaning up the environment.

In deference to Mr Walesa, Congress will probably remove most of the blocks this week. But Mr Walesa also wants to court capitalists, particularly Polish-American capitalists. His trip includes stops in New York, Philadelphia and Princeton, New Jersey, where he will meet Mrs Barbara Johnson, the heiress who bought a stake in the Lenin Shipyard, in Gdansk.

Private companies may well announce some investment moves this week, inspired by people such as Mr George Soros, the Hungarian-American banker who believes there is money to be made as centrally planned economies become more market-oriented.

But many businessmen will be waiting for an economic stabilisation programme to go into effect in Poland, so that profits can be produced (and repatriated). This in turn will depend on the IMF's economic reform plan, which may be complete by the end of the year and which would lead to a stand-by facility and a strict three-year structural adjustment programme. Mr Walesa faces a hard sell.

# Bulgaria opposition wants entire politburo to resign

By Judy Dempsey in Sofia

BULGARIA'S fledgling opposition groups intend to demand the resignation of the entire politburo later this week, following the "retirement" of Mr Todor Zhivkov last Friday.

Mr Zhivkov, 78, Eastern Europe's longest-serving party leader, has thrown the Bulgarian Communist Party into disarray. Contrary to unconfirmed reports that several changes were to have taken place at the hastily-convened central committee plenum, it is understood that Mr Zhivkov fought back to retain some influence over the politburo by preventing the sacking of his veteran supporters.

On TV on Friday, he was a shaken man, which fuelled speculation that the debates were intense but that the "Young Turks" in the central committee failed to win their battle for fundamental political changes.

So inconclusive were the discussions that a successor to Mr Petar Mladenov, the 53-year-old foreign minister who has replaced Mr Zhivkov, has not yet been named. Another central committee meeting has been called soon, while the National Assembly has been called to endorse the changes. As yet, no date has been fixed for either meeting.

Mr Mladenov will be seen as an interim measure; but for the moment, Mr Mikhail Gorbachev, the Soviet leader, has congratulated him. Mr Mladenov's immediate task will be to put the economy on a firm footing. Industrial growth has fallen and the country's hard currency debt has risen over the past five years from $3bn to over $7bn (£4.4bn). He also must contain growing opposition centred on Eco-Glasnost, the independent environmental movement, and criticism from the Academy of Sciences and other institutes.

In his acceptance speech, he held out an olive branch to Eco-Glasnost by saying more attention would be paid to the environment. But the extent of containing the opposition will be confirmed today when Eco-Glasnost's appeal to register as a legal organisation will be heard by the courts.

# Welcome for Kohl in Poland

By Christopher Bobinski in Warsaw

ETHNIC Germans living in Poland yesterday chanted "Helmut, Helmut" in a display of national sentiment as Mr Helmut Kohl, the West German Chancellor, went to Sunday mass at Krzyzowa in south-west Poland. Some 5,000 people attended the service including Mr Tadeusz Mazowiecki, the Polish Premier, who like Mr Kohl is Catholic.

The service was intended to symbolise reconciliation between Poles and Germans. "We want German schools and church services," said one of the dozen or so banners held by the crowd. "Helmut, you are our Chancellor too," said another.

Many of those attending are members of German cultural societies which have so far been refused recognition by the Polish authorities. Some West German politicians have claimed that the German minority numbers 1m in Poland, while Gen Czeslaw Kiszczak, Poland's Interior Minister, recently gave a figure of 2,500.

The societies, which claim over 200,000 members, have long seen yesterday's service as an opportunity to show their strength and they can expect to be registered as a result of Mr Kohl's visit to Poland, which started on Thursday, was interrupted for a Cabinet meeting in Bonn on Saturday and will end tomorrow.

Yesterday's service was celebrated by Bishop Alfons Nossol from Opole, who, in a sermon delivered in both German and Polish, called for reconciliation "between the two Christian leaders" who sat side by side next to the altar. Bishop Nossol referred to the wrongs done to Poles during the war and German sufferings when they were deported from their eastern territories which passed to Poland as a result of the Potsdam Conference in 1945.

# Three countries where reform has still to arrive

### Judy Dempsey on the position of Czechoslovakia, Bulgaria and Romania

CZECHOSLOVAKIA, Bulgaria and Romania will no longer be immune from the reforms sweeping through Poland, Hungary and, in the most spectacular way, across East Germany. But the way change will eventually take place in these three countries now depends on the party leaderships.

The most obvious candidate for reform should be Czechoslovakia, the only country in Central Europe with a deeply ingrained democratic tradition. But the party is led by the dour Mr Milos Jakes, who in fact was responsible for the purges in the party after the 1968 Prague Spring was crushed by Soviet-led tanks.

But although the demonstrations by the opposition are bigger, the instincts of both Czechs and Slovaks remain cautious about any radical change. They also remain sceptical that the leadership, installed after 1968 and owing their positions to the late Mr Leonid Brezhnev, will match their Hungarian or Polish neighbours.

Equally, the opposition, which extends far beyond Charter 77, the human rights movement, is too weak to push for change. In short, the path to reform remains deadlocked: both the leadership and opposition are weak.

It would require a concerted move from the younger party officials, combined with demonstrations, to move the pace. It is, however, only a matter of time, particularly since Czechoslovakia has now finally lost East Germany as its staunch conservative ally.

Bulgaria, under Mr Todor Zhivkov, who resigned during a bitter central committee meeting last Friday, could more easily afford to ignore the reforms in Poland and Hungary. After all, he still had his two faithful allies, Mr Jakes and Mr Erich Honecker in EastGermany, to justify the half-baked reforms which tended to pay lip-service to Moscow.

But now, particularly over the past few days, the political map of Central Europe looks entirely different. Equally, the weak democratic traditions and weak political culture in Bulgaria and Romania suggest the engine for change will come from unpredictable sections of party or of society.

Bulgaria and Romania lack the workers' power which propelled Solidarity into power in Poland, the party power which initiated changes in Hungary and the people's power which brought down the East German leadership.

For one thing, the working class in Bulgaria and Romania belong to first or second generation peasantry, where one foot remains on the soil and the other on the factory floor. The relative absence of old, concentrated working-class districts has undoubtedly been an asset to the party.

However, and this is one of the obvious liabilities for the Ceausescu régime, if the economy deteriorates even further, the Romanian authorities could be faced with a repeat of the Brasov riots in November 1987, or the miners' strikes which swept through the Jui valley in 1977, both quashed by the authorities.

Second, neither country has a strong Roman Catholic or Lutheran Church. It was the Church in Poland which galvanised independent activities, coupled with its deep sense of nationalist identity which served to protect Poland's civil society. The Lutheran churches in East Germany gave shelter to the fledgling opposition groups.

In contrast, except for the small Protestant churches among the German and Hungarian minorities in Romania, and the Moslem population in Bulgaria, both countries are largely Orthodox. Historically, that church has tended always to identify with the state, thus providing no platform for dissent or independent thinking.

Third, unlike Hungary, neither ruling Communist Party in Bulgaria or Romania has fundamentally reformed the structures of either party or state since Mr Mikhail Gorbachev came to power in the Soviet Union.

The Bulgarian leadership did embark on incoherent, hastily drawn-up economic reforms with the aim of ensuring the survival of Mr Zhivkov and warding off repeated criticisms from Moscow.

But despite considerable impatience from the young technocrats, the leadership has remained largely intact for the past two decades. Besides, those, such as Mr Chudomir Aleksandrov, who criticised Mr Zhivkov, were unceremoniously sacked. As for Romania, Mr Ceausescu and his family is the party. Any contenders dare not raise their voice.

Yet there are signs that ordinary Bulgarians are becoming increasingly restless. The growing support for Eco-Glasnost, the independent environmental movement, is now being seen as a potential opposition. Within the Academy of Sciences, there are calls for political changes and a new leadership.

"With all that is happening in Europe, what have we to lose now?" several Bulgarians asked. Such words have not yet been heard in Romania.

# Auction underlines rouble's weakness

By Quentin Peel in Moscow

OFFICIAL RESULTS for the Soviet Union's first foreign exchange auction show that state enterprises paid up to 27 times the official exchange rate to obtain hard currency, although the average rate was 15.2 times the official rate.

However only a modest Rbs 8.5m in "hard currency roubles" (£8.5m or $13.5m) in fact changed hands. There were only 31 sellers to match 210 buyers, and some sellers were looking for prices of up to Rbs 40 for each of their hard currency roubles – 40 times the official exchange rate.

The figures, published at the weekend by the auction committee of the Vneshekonombank (bank for foreign economic affairs), show that some Soviet state enterprises valued their currency even lower than preliminary predictions. They also showed an extraordinary spread in the value put on foreign exchange, which is in acutely short supply throughout the controlled Soviet economy.

Soviet officials insist that the auction rates will have no effect on the official exchange rate, although they must inevitably increase the pressure for a large devaluation at some stage.

Bids for foreign currency ranged from Rbs 1 to the hard currency rouble (the official exchange rate), up to Rbs 27. Offers ranged from Rbs 9 to Rbs 40.

The bids and offers were matched by computer, and the Rbs 8.5m finally sold was allocated at contract prices between Rbs 10 and Rbs 27, the official announcement said. The average price was Rbs 15.2.

In terms of the exchange rate to the dollar, those rates would suggest a maximum of Rbs 16.95, a minimum of Rbs 6.28, and an average of Rbs 9.54.

Mr Thomas Alibegov, the first deputy chairman of Vneshekonombank, said the outcome was not any indication of a realistic exchange rate, but rather "a contract price for freely convertible currency."

Soviet officials are in fact delighted that the auction has been successfully held, after being repeatedly postponed. the auction was scheduled to be held in April, but the bank was unable to attract enough offers of hard currency from Soviet enterprises to match the pent-up demand.

The result none the less shows that the special tourist exchange rate introduced by the Soviet authorities at the start of November, of Rbs 6.26 to the dollar, still values the rouble well above the rest of the Soviet economy.

Mr Alibegov said that future auctions could include manufacturing co-operatives and, eventually, joint ventures.

The Soviet government newspaper, Izvestia, questioned yesterday whether the sellers of hard currency in the auction were genuine state enterprises, or whether it was the state selling its hard currency reserves in order to ensure a market. Mr Alibegov refused to identify any of the sellers for reasons of "commercial secrecy".


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To the Holders of

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NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Section 4(c) of the Fiscal Agency Agreement dated as of December 15, 1972 between Norges Kommunalbank and The Chase Manhattan Bank (National Association), as Fiscal Agent, $2,500,000 aggregate principal amount of the above-captioned Bonds (the "Bonds") will be redeemed through operation of the sinking fund on December 15, 1989 (the "Redemption Date") at the Redemption Price of 100% of the principal amount thereof (the "Redemption Price").

The serial numbers of the Bonds to be redeemed are as follows:

| | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| M 10 | 633 | 1122 | 1704 | 2288 | 2746 | 3143 | 3677 | 4176 | 4699 | 5163 | 6017 | 6820 | 8195 | 10574 | 13930 | 17292 | 18009 | 18769 | 19326 | 19811 |
| 14 | 634 | 1125 | 1707 | 2293 | 2750 | 3144 | 3679 | 4177 | 4701 | 5170 | 6020 | 6821 | 8196 | 10579 | 13946 | 17293 | 18015 | 18771 | 19327 | 19812 |
| 19 | 635 | 1130 | 1712 | 2298 | 2755 | 3145 | 3681 | 4179 | 4702 | 5171 | 6026 | 6824 | 8197 | 10580 | 13947 | 17303 | 18016 | 18774 | 19328 | 19814 |
| 25 | 639 | 1135 | 1713 | 2305 | 2757 | 3146 | 3685 | 4183 | 4705 | 5172 | 6031 | 6834 | 8198 | 10584 | 13952 | 17304 | 18018 | 18778 | 19332 | 19816 |
| 43 | 644 | 1139 | 1715 | 2307 | 2758 | 3149 | 3687 | 4185 | 4714 | 5180 | 6046 | 6835 | 8199 | 10587 | 13953 | 17305 | 18020 | 18786 | 19335 | 19817 |
| 44 | 651 | 1141 | 1716 | 2309 | 2760 | 3153 | 3689 | 4189 | 4716 | 5182 | 6049 | 6841 | 8291 | 10591 | 13955 | 17310 | 18025 | 18788 | 19338 | 19827 |
| 48 | 658 | 1142 | 1735 | 2311 | 2763 | 3154 | 3722 | 4190 | 4719 | 5187 | 6058 | 6844 | 8294 | 10592 | 13957 | 17328 | 18028 | 18789 | 19340 | 19829 |
| 51 | 660 | 1144 | 1775 | 2312 | 2764 | 3161 | 3725 | 4194 | 4721 | 5188 | 6059 | 6845 | 8308 | 10772 | 13958 | 17330 | 18029 | 18794 | 19344 | 19830 |
| 53 | 661 | 1151 | 1786 | 2314 | 2765 | 3174 | 3728 | 4201 | 4725 | 5189 | 6060 | 6846 | 8310 | 10773 | 13959 | 17331 | 18031 | 18795 | 19345 | 19834 |
| 56 | 665 | 1152 | 1788 | 2316 | 2767 | 3175 | 3740 | 4211 | 4728 | 5190 | 6065 | 6851 | 8323 | 10791 | 13961 | 17335 | 18033 | 18802 | 19348 | 19836 |
| 58 | 673 | 1160 | 1793 | 2318 | 2769 | 3176 | 3742 | 4227 | 4735 | 5191 | 6066 | 6854 | 8324 | 10792 | 13962 | 17341 | 18082 | 18807 | 19354 | 19838 |
| 63 | 675 | 1163 | 1801 | 2321 | 2771 | 3181 | 3746 | 4228 | 4736 | 5193 | 6070 | 6861 | 8325 | 10794 | 13964 | 17343 | 18085 | 18815 | 19391 | 19906 |
| 65 | 661 | 1169 | 1802 | 2323 | 2777 | 3182 | 3754 | 4230 | 4742 | 5194 | 6204 | 6863 | 8326 | 10795 | 13965 | 17356 | 18067 | 18818 | 19395 | 19907 |
| 511 | 1040 | 1609 | 2164 | 2671 | 3084 | 3524 | 4097 | 4611 | 5110 | 5844 | 6727 | 8070 | 10488 | 13210 | 17218 | 17806 | 18668 | 19210 | 19752 | |
| 514 | 1059 | 1618 | 2167 | 2673 | 3086 | 3530 | 4099 | 4612 | 5114 | 5847 | 6729 | 8095 | 10489 | 13211 | 17219 | 17808 | 18669 | 19219 | 19753 | |
| 523 | 1064 | 1620 | 2171 | 2677 | 3089 | 3535 | 4100 | 4613 | 5122 | 5853 | 6735 | 8104 | 10490 | 13214 | 17224 | 17823 | 18673 | 19224 | 19757 | |
| 525 | 1068 | 1621 | 2172 | 2681 | 3090 | 3537 | 4101 | 4621 | 5123 | 5854 | 6741 | 8105 | 10491 | 13215 | 17226 | 17825 | 18676 | 19225 | 19758 | |
| 526 | 1070 | 1622 | 2176 | 2690 | 3092 | 3538 | 4103 | 4622 | 5127 | 5858 | 6755 | 8106 | 10492 | 13218 | 17229 | 17838 | 18680 | 19231 | 19759 | |
| 533 | 1074 | 1627 | 2214 | 2698 | 3096 | 3540 | 4108 | 4623 | 5132 | 5859 | 6773 | 8108 | 10496 | 13221 | 17231 | 17844 | 18726 | 19235 | 19763 | |
| 543 | 1079 | 1628 | 2219 | 2702 | 3099 | 3543 | 4113 | 4626 | 5133 | 5864 | 6776 | 8110 | 10497 | 13226 | 17235 | 17846 | 18730 | 19238 | 19765 | |
| 545 | 1080 | 1646 | 2220 | 2705 | 3103 | 3554 | 4126 | 4628 | 5134 | 5866 | 6780 | 8112 | 10501 | 13228 | 17236 | 17854 | 18731 | 19266 | 19766 | |
| 553 | 1081 | 1647 | 2222 | 2707 | 3106 | 3555 | 4128 | 4631 | 5135 | 5877 | 6781 | 8127 | 10533 | 13251 | 17238 | 17858 | 18732 | 19269 | 19768 | |
| 570 | 1082 | 1649 | 2224 | 2710 | 3110 | 3556 | 4137 | 4652 | 5136 | 5878 | 6782 | 8131 | 10534 | 13473 | 17242 | 17861 | 18734 | 19277 | 19771 | |
| 572 | 1090 | 1660 | 2229 | 2716 | 3113 | 3558 | 4147 | 4658 | 5139 | 5879 | 6788 | 8133 | 10537 | 13474 | 17243 | 17862 | 18737 | 19286 | 19773 | |
| 581 | 1094 | 1677 | 2256 | 2717 | 3115 | 3564 | 4149 | 4660 | 5140 | 5885 | 6790 | 8135 | 10538 | 13561 | 17245 | 17864 | 18744 | 19288 | 19775 | |
| 596 | 1097 | 1679 | 2261 | 2718 | 3116 | 3567 | 4150 | 4665 | 5150 | 5887 | 6802 | 8140 | 10542 | 13789 | 17249 | 17865 | 18746 | 19290 | 19777 | |
| 599 | 1098 | 1683 | 2267 | 2725 | 3117 | 3571 | 4152 | 4666 | 5151 | 5889 | 6803 | 8158 | 10550 | 13791 | 17251 | 17868 | 18748 | 19293 | 19778 | |
| 600 | 1102 | 1684 | 2269 | 2727 | 3125 | 3577 | 4154 | 4669 | 5152 | 5891 | 6804 | 8171 | 10558 | 13795 | 17276 | 17871 | 18750 | 19295 | 19779 | |
| 601 | 1104 | 1687 | 2273 | 2730 | 3126 | 3578 | 4163 | 4671 | 5153 | 5903 | 6805 | 8188 | 10564 | 13857 | 17277 | 17875 | 18754 | 19296 | 19781 | |
| 605 | 1106 | 1689 | 2278 | 2735 | 3130 | 3587 | 4166 | 4673 | 5154 | 6010 | 6806 | 8190 | 10567 | 13861 | 17280 | 17899 | 18756 | 19298 | 19800 | |
| 607 | 1117 | 1690 | 2279 | 2737 | 3131 | 3631 | 4169 | 4689 | 5155 | 6014 | 6814 | 8191 | 10568 | 13917 | 17285 | 17962 | 18757 | 19303 | 19805 | |
| 611 | 1118 | 1695 | 2280 | 2740 | 3138 | 3643 | 4171 | 4691 | 5158 | 6015 | 6818 | 8192 | 10569 | 13920 | 17290 | 17963 | 18758 | 19314 | 19809 | |
| 612 | 1119 | 1696 | 2286 | 2744 | 3139 | 3657 | 4174 | 4692 | 5161 | 6016 | 6819 | 8193 | 10573 | 13923 | 17291 | 18003 | 18760 | 19317 | 19810 | |

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# Crowds attack Hindu temple in Pakistan

A CROWD angry at the alleged desecration of a mosque in India, attacked Hindu temples and shops in the Pakistani city of Sukkur on Saturday, newspapers said yesterday, Reuter reports from Islamabad.

The crowd set fire to temple furniture, and damaged three Hindu-owned shops. Six people were arrested, but there were no casualties.

The reports quoted a Pakistani Hindu leader as saying the attacks were in reaction to plans by Indian Hindus to build a temple near the site of the 16th-century Babri Mosque in Ayodhya, Uttar Pradesh. Many Hindus believe the site is the birthplace of the Hindu deity Rama.

Pakistan's Prime Minister Benazir Bhutto has ordered authorities to ensure protection of Hindu religious places against further violence.

The dispute over the Babri mosque has triggered Hindu-Moslem violence in India and led to a war of words between India and Islamic Pakistan.

Ms Bhutto called the incident "a wilful desecration of an Islamic holy place" and said the Indian Government must protect Indian Moslems' lives and property.

An Indian Government spokesman accused her of interfering in India's internal affairs and of "ignorance of the complexities of the issue". The incident has also helped to weaken Moslem support for Indian Prime Minister Rajiv Gandhi's party in the elections which are to start on November 22.

Many of India's 100m Moslems, who have voted solidly in the past for his Congress Party, are outraged at what they view as the Government's weak response to Hindu revivalism that has sparked riots against Moslems in north India.

India's best-known Islamic leader has told Moslems to vote against Mr Gandhi in the elections. His rule had thrown the country "back into the age of barbarism just for the sake of its political gains and out of sheer ineptness", Syed Abdulla Bukhari, Imam of Delhi's main Jama Masjid mosque, said.

Moslems saw the Government as abandoning its neutrality in the two-year mosque dispute, in which it asked both communities to let the courts decide the issue, by decreeing that the temple site was outside the mosque boundaries, which are also disputed.

Moslem votes will be crucial in the close contest in Uttar Pradesh, a state which returns 85 of 545 members of parliament and which Mr Gandhi must carry to win a new five-year term.

# Japan Finance Ministry 'holding up tax plan'

A PLAN by Japan's Ministry of International Trade and Industry to offer tax concessions to Japanese companies to encourage purchases of foreign goods has been virtually stalled by Finance Ministry opposition, a senior Miti official has claimed, Robert Thomson writes.

Mr Noboru Hatakeyama, director-general of Miti's international trade policy bureau, said the Finance Ministry, with ultimate responsibility for taxation policy, was "criticising the idea" of allowing companies to make tax deductions for increased imports.

The Miti proposal, designed to take heat out of the trade issue, is believed to provide for a deduction equivalent to around 2-3 per cent of the cost of a company's increased imports. The deduction would be for manufactured goods only, under the plan, which is the opposite of export incentive programmes run by the Government to develop Japanese industry.

Mr Hatakeyama said the Finance Ministry argued the trade balance was improving, reducing need for steps to stimulate imports. The Finance Ministry said it had not yet finalised its position.

# Top aide to Gorbachev on visit to Tokyo

A TOP aide to Mr Mikhail Gorbachev, the Soviet President, arrived in Tokyo for a visit yesterday, Reuter reports from Tokyo.

During his seven-day visit, Mr Alexander Yakovlev will meet Emperor Akihito, Prime Minister Toshiki Kaifu and Mr Taro Nakayama, Foreign Minister.

His trip comes ahead of a visit by Mr Eduard Shevardnadze, Soviet Foreign Minister, next March.

Mr Gorbachev is due in Tokyo in 1991 for the first visit there by a Soviet leader since the Second World War.

Tokyo has never signed a peace treaty with Moscow and refuses to improve bilateral relations until the Soviet Union returns four small islands of the Kurile chain north-east of Japan.

## Suez tolls to rise

The Suez Canal Authority will raise tolls for ships using the waterway by an average of 5 per cent from January 1, Reuter reports from Ismailia.

Mr Ezzat Adel, the authority's chairman, said the maximum increase in tolls would be 7.3 per cent for small vessels. Ships of at least 170,000 dw tonnes will pay an increase of 1.1 per cent.

Canal tolls, a major source of hard currency for Egypt, were raised by an average of 8 per cent in 1989.

A 25 per cent surcharge for warships using the 120-mile canal would remain in effect next year.

## World trade talks

Senior officials from the world's major trading blocs gathered in Hakone in Japan yesterday, to try to forge a common strategy before wider talks in Tokyo on liberalising world trade.

US and Japanese officials say the officials from Japan, the US, the European Community and Canada will try to come up with a unified stance towards the Third World.

The three-day meeting comes before informal talks among members of the 107-nation General Agreement on Tariffs and Trade in Tokyo on Wednesday.

# US shows its displeasure with Israeli PM

By **Lionel Barber** and **Andrew Gowers** in Washington

WHEN AN Israeli prime minister arrives in the US, he can usually count on an automatic invitation to the White House. Mr Yitzhak Shamir must therefore have experienced a frisson of discomfort as he waited for almost two months to hear whether President George Bush could find time to see him this week.

Mr Bush is, after all, a gregarious President, with an open door to myriad American and foreign visitors. The snub carried a message: the Bush administration is irritated at what it sees as Mr Shamir's stonewalling over his own plan for Palestinian elections in the occupied territories.

Mr Shamir's arrival in the US comes at a crucial stage for cautious US efforts to promote talks between Israel and the Palestinians. In seeking to fine-tune the terms of such a dialogue, Mr James Baker, US Secretary of State, has found himself caught up in an increasingly convulated game of smoke and mirrors.

The ground-rules ought to be straightforward. Mr Baker has proposed a five-point framework under which he would meet with the foreign ministers of Israel and Egypt to launch talks on elections between Israel and a delegation of Palestinians. Here the ambiguities begin, revolving as always around the role of the Palestine Liberation Organisation (PLO).

A senior administration official says that Israel has agreed to the Baker plan on the "assumption" that the PLO will have no role, either in the selection of the Palestinian delegation or in determining the scope of the talks. Mr Shamir is anxious to foreclose any suggestion that in agreeing to unprecedented formal talks with Palestinians, he is being dragged into future negotiations with the PLO itself.

The Administration, whose dialogue with the PLO has served to fuel Israeli suspicions, says it is not asking for approval or authorisation for the election plan from the PLO: "Nobody is going to force Israel to sit with someone it does not want to sit with," said the senior US official, "but Palestinians will not come forward if the PLO says 'No'. That is a reality."

Enter Egypt, in its role of trusted interlocutor of the PLO and Camp David partner of Israel. Mr Baker is still waiting for a reply to his proposal from President Hosni Mubarak of Egypt, largely because the PLO is agonising whether it can give the nod to a process which would confine it to the sidelines.

There have been complaints, particularly in Europe, that the Administration is being too timid at a time when the PLO has made big concessions such as recognising Israel and renouncing terrorism. The response in Washington is that the US is doing as much as can be expected "given what the political traffic will bear".

Most Palestinians and many of Mr Shamir's restive Labour partners have long suspected his chief motive was really just to puncture the international pressure that had built up on Israel and buy time for the uprising to fade.

Mr Shamir's aides insist that he is serious and honest in pursuing his initiative. It is true that he has accepted that, under the Israeli plan, "all issues" will be on the table once the second stage of negotiations on a final settlement is reached.

Optimists hope that Mr Shamir's go-ahead for talks in Cairo can be won by constructing the Palestinian delegation from non-PLO members. But as any credible candidate would at least have to have the full backing of the PLO such a transparent smokescreen will not be easy for Mr Shamir to swallow.

But the enduring problem does not just stem from Mr Shamir; his refusal to deal with the PLO is supported by a broad Israeli consensus. The Administration's tactics, therefore, are to try to create a "new dynamic" which in time might begin to change the climate. State Department officials tend to place an almost mystical faith in the process itself, arguing that "if you produce a real political process, what is unthinkable today might become thinkable in a few years time".

## LIKUD ATTEMPTS TO CONTROL TRADE UNION FEDERATION

ISRAEL'S once-dominant Labour party faces an important test of its strength today in elections for the leadership of the powerful Histadrut trade union federation where its longstanding majority control is under attack by the right-wing Likud party of Mr Yitzhak Shamir, the Prime Minister, Hugh Carnegy reports from Jerusalem.

As Labour defends the target of a 50 per cent share of the vote to avoid being forced into coalitions, it has come under sharp attack both from Likud and from smaller leftist parties for the recent failures of the union movement.

Labour's campaign is led by Mr Israel Kessar, the incumbent Histadrut General Secretary. He engineered the postponement of the four-yearly elections from May this year following the emergence of deep financial crises in the union-associated kibbutzim collective movement and Koor Industries, the country's biggest industrial group which is owned by Hevrat Ha'ovdim, the Histadrut's big industrial holding company. Likud, chasing a 30 per cent share of the vote, has proposed selling off Hevrat Ha'ovdim to the private sector.

# Namibia's whites cling to hope of Swapo defeat

**Patti Waldmeir** reports on the attitudes of Afrikaner farmers as counting starts in the independence election

I "don't mind living next to a black," says Mr Gino Gagiano. "But I do mind a Swapo government."

Wedged in a tight queue with hundreds of fellow voters – nearly all of them black, and the vast majority supporters of the South West Africa People's Organisation (Swapo) – Mr Gagiano clearly feels no self-consciousness about declaring that independence will be a disaster for Namibia.

Mr Gagiano is speaking English, a language which few blacks understand in Tsumeb, where the 28-year-old Afrikaner works as a buyer for the local copper mine. But even in Afrikaans, he does not lower his voice: "A Swapo government would bring chaos. They would ruin the economy, as they [blacks] have done in the rest of Africa."

As polling officers today begin counting the votes cast by Mr Gagiano and his fellow-Namibians in five days of pre-independence polling last week, the prospect of a Swapo government taking over in Windhoek after independence next year seems overwhelmingly likely.

Mr Gagiano is not buying that prediction, though; indeed, it is hard to find a white in conservative Tsumeb who is willing to concede a Swapo victory just yet.

At the offices of the local mining house, the Tsumeb Corporation, and on the vast farms and ranches which spread for miles into the bush, the betting is on the Democratic Turnhalle Alliance (DTA), or on Action Christian National, a new right-wing party headed by one of the architects of apartheid in South West Africa, the South African colony soon to become independent Namibia.

Mr Alec Brits, who came to "South West" 33 years ago and now farms fruit and vegetables a few miles north of Tsumeb, says he thinks the DTA will win the election. The DTA, which has many black members, participated in a "transitional government of national unity" installed by Pretoria in 1985, but never recognised internationally.

Mr Brits says he often forgets to take a firearm when he moves about the farm; but his neighbours, he admits, take a less cavalier attitude towards security. Their main concern, he says, is thieves.

But he also fears a resumption of fighting after independence. After 20 years of guerrilla war with Swapo – Mr Brits served in the local commando, as well as in the South West African Territorial Force (SWATF) – he says whites would be "dumb" not to be prepared.

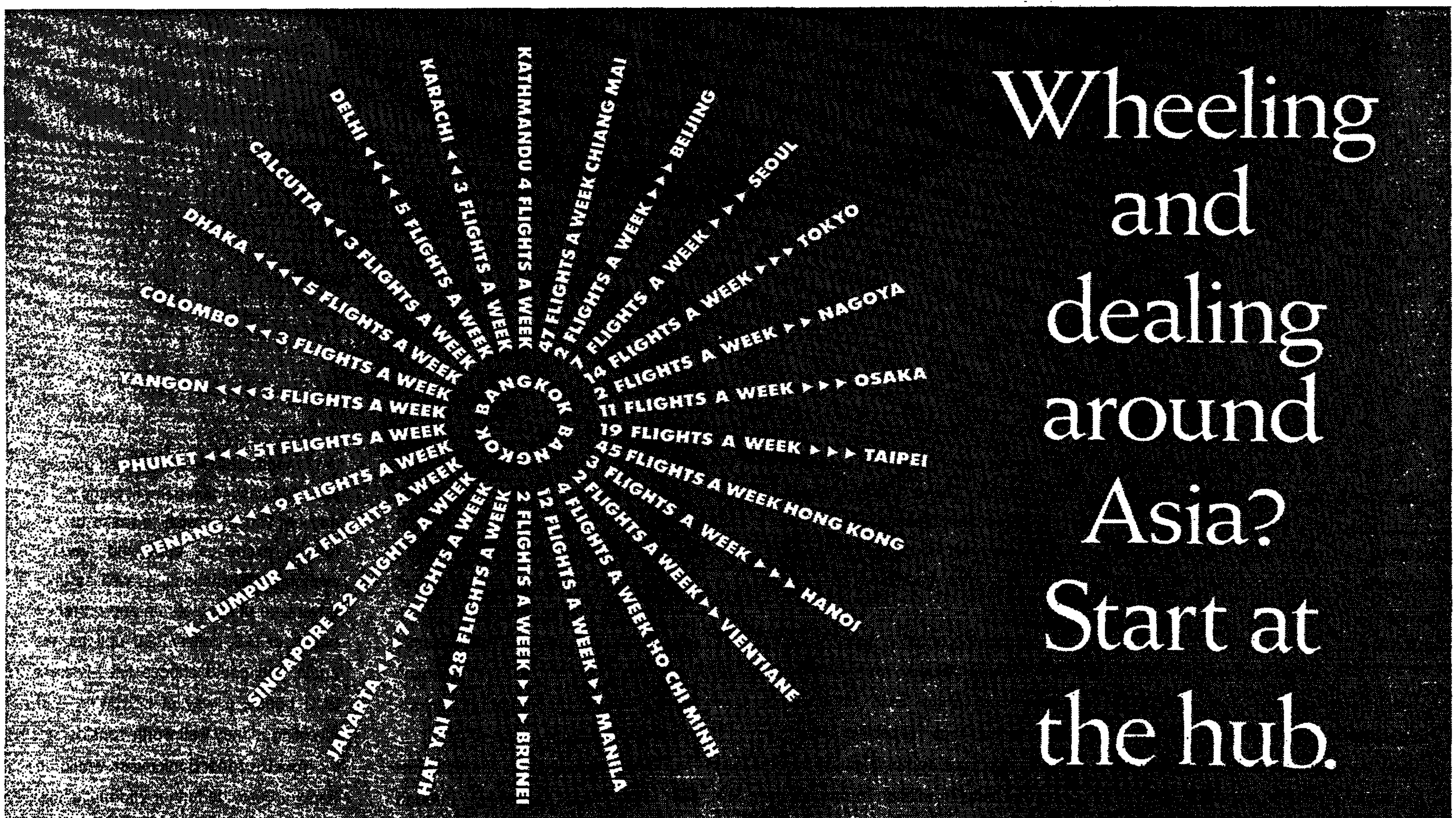
Mr Brits and his neighbours say there are two things they are willing to fight for: their farms, and their Afrikaner culture. They are unhappy that English will be the official language of a Swapo-ruled Namibia, and they are even more concerned at Swapo's plans for land reform.

"The struggle for land was the heart of the independence struggle," says Mr Ongura Tshirunbu, the local Swapo representative in Tsumeb. "We are saying – if a white has five farms, he should take the best and surrender the other four to the people."

Whites will be fully compensated for their loss, says Mr Tshirunbu. But when asked where Swapo will find the millions of rands necessary to buy out large numbers of white farmers, he simply replies: "Once we are the government, we will have the money".

Outside the Tsintsabis polling station 50 miles north of Tsumeb last week, white farmers were taking no chances: they were offering free cold drinks to anyone who voted for the DTA – and still clinging, against the odds, to visions of a Swapo defeat.

> Namibia's pre-independence elections, which ended on Saturday, gave the world a "lesson in democracy", according to the chief United Nations official supervising the poll, Patti Waldmeir writes.
>
> Mr Martti Ahtisaari, UN Special Representative in Namibia, declared the poll "free and fair" – a declaration necessary to validate the election under a UN-sponsored peace plan to bring independence to the South African-ruled territory. Voter turnout was remarkably high, at an estimated 96 per cent turnout.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# Mercedes-Benz present their latest range of multi-valve performance cars

Quite a quartet. And they've more in common than you may imagine. Such as the twin-cam, crossflow, four-valves-per-cylinder technology now available in the six-cylinder 3.0-litre engine nestling in the nose of the 300E-24 saloon, the 300TE-24 estate and the 300CE-24 coupé.

You'll find the multi-valve engine sitting amidships in the C9-88 Group C Mercedes-Benz that won the World Sports Car Championship and Le Mans this year, and there's no denying that this V8 has a notch or two more power. But do you really need more than 231 bhp and an acceleration potential of 0-60mph in less than 7.5 seconds (300E/300CE manufacturer's figures) to tackle Knightsbridge, the M62, or the swoops and curves of Wales?

## A More Refined Engine

By doubling the number of valves per cylinder in their potent series-topping six-cylinder engine, Mercedes-Benz engineers have optimised its efficiency. And, by introducing automatic adjustment of the camshaft timing, they've eliminated a common weakness of multi-valve engines – a narrow band of high power available only at the top of the rev range. It is a particular strength of these engines that very high torque is available almost from idling revs.

The engine also incorporates the latest generation electro/mechanical fuel injection. All of which means, in plain language: more power that's more accessible, a cleaner exhaust, smoother idling, greater refinement.

## Refreshed 200E-300E Body Styling

In fact, the latest, expanded, 200E-300E series is pretty lively all round. There's an extensive colour range and new, colour-coordinated protective side panels. The seats have been completely redesigned to improve lateral support without limiting movement, and the fabrics are more luxurious.

All models in the series are now also offered with a Sportline performance option for those who like their driving to be a little more yeasty.

Lower, firmer suspension, more direct steering, and wider wheels and tyres, all contribute to tauter handling and roadholding. For the truly sporting-minded there's the option of a close ratio manual gearbox and there's a new five-speed automatic available with the 300CE-24 coupé.

The Sportline option can inject a little brio into the interior, too. There are Sportline seats front and rear that embrace driver and passengers more securely, and the package is rounded off with a smaller, leather-covered steering wheel and gearchange.

The more powerful, freer-breathing, multi-valve engines come in the quartet of body styles shown here. However, if comfort and convenience matter to you as much as performance, Mercedes-Benz recommend that you limit your choice to the three on the left. (The Group C car is a little cramped, and all-round vision is scarcely panoramic.)

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## OVERSEAS NEWS

# El Salvador rebels step up attacks

By Tim Coone in Managua

THE left-wing FMLN guerillas in El Salvador launched on Saturday night what appears to be developing into an all-out nationwide offensive against the Government.

At least 38 people were killed and 130 wounded in street battles between troops and the guerillas in the capital, San Salvador, yesterday morning. Fighting is also reported in the provincial capitals of San Miguel and Usulutan.

President Alfredo Cristiani appeared on national television yesterday claiming the situation was under control, but said he was considering imposing a state of siege and curfew.

Yesterday morning the guerrilla radio station, Radio Venceremos, claimed that several northern suburbs of San Salvador were now under the control of the FMLN and that fighting was taking place at 50 different locations in the capital. The international airport has been closed after two army helicopters were shot down in the vicinity. The military airbase of Ilopango in the capital has also been attacked and several helicopters and aircraft destroyed.

Mr Cristiani's home was attacked on Saturday night but according to an army spokesman he has not been hurt.

A communiqué from the General Command of the FMLN yesterday said all road transport must come to a halt from midnight on Sunday, all petrol stations must close immediately, workers repairing sabotaged electricity lines must stop work and all people living near army barracks must leave their homes, as all military installations are now considered "combat zones".

The FMLN announced its intention four days ago to step up actions against the Government since a wave of bomb attacks against left-wing political and trade union figures began two weeks ago. These followed inconclusive peace talks between the Government and FMLN in the middle of October at which the administration rejected rebel proposals for political reforms in return for the guerrillas' promise to abandon their weapons and return to civilian life.

A bomb attack against a trade union office on October 31 killed nine people including one of El Salvador's most prominent trade union leaders, Ms Febe Elizabeth. The FMLN subsequently broke off plans for further peace talks this month and instead called on the population to take up arms against the Government.

# Greek communists reject coalition plan

By Kerin Hope in Athens

THE GREEK Communist leader, Mr Harilaos Florakis, yesterday rejected as "attractive but unrealistic" the Socialists' proposal to form a left-wing coalition and called, instead, for a government of personalities acceptable to all political parties.

After a meeting with Mr Andreas Papandreou, the Socialist leader and former Prime Minister, he said there was no guarantee that a left-wing coalition government could survive.

The combined strength of the Socialists and the Communist-dominated Left Alliance party adds up to just 150 seats in the 300-member parliament, which would make their coalition dependent on support from an independent Socialist and Green deputy.

The Socialist, Mr Apostolos Lazaris, a former Economy Minister, is willing but the Greens, who won their first parliamentary seat in the inconclusive November 5 election, agreed at the weekend to deny support to any government seeking a parliamentary vote of confidence.

Both the Socialists and the Conservative New Democracy party, which finished three seats short of an overall majority, have ruled out asking for backing from the third independent, Mr Molla Ismail Rodoplu, a militant representative of the ethnic Turkish minority in Thrace.

The way out of Greece's week-old political deadlock now seems to be the formation of a short-term "ecumenical" government, perhaps along the lines suggested by Mr Florakis, which would hold power until early next year. The Conservative leader, Mr Constantine Mitsotakis, has already accepted the idea, while Mr Papandreou says he will consider it.

# French economy expanding strongly

By Ian Davidson by Paris

THE French economy is showing continuing signs of strong expansion, with declining unemployment, and vigorous growth in the production and consumption of manufactured goods, according to the latest assessment of the National Statistical Institute.

As a result, the Institute has revised upwards its estimate of the growth in French gross domestic product in the first half of this year to 2.1 per cent, and now forecasts that the overall increase in GDP for this year could well be equal to, or even higher than, last year (3.8 per cent).

The most worrying feature of the economy remains the foreign trade deficit; the Institute forecasts a further deterioration of the deficit in manufactured goods this year. However, the worsening of the visible trade deficit is expected to be offset by an improvement in the tourism and services balance, with the result that the current account deficit should be of the same order as last year, FFr21bn ($3.4bn).

In the short run, therefore, the Institute judges that the current strength of domestic demand is tolerable, but might not be sustainable over a longer period.

Price inflation, however, has slowed during the second half of this year to 1.5 per cent, compared with 2.1 per cent in the first half. This is partly the effect of the cuts in the rate of value added tax on cars, cameras and other luxury goods. But the Institute also judges that the underlying rate of increase in the prices of manufactured goods is less than previously forecast.

The relative stability of the current account deficit is partly due to the one-off increase in tourism receipts connected with the bicentenary of the French Revolution.

# González stripped of Cortes majority

By Tom Burns in Madrid

A PROVINCIAL electoral board yesterday provisionally stripped Prime Minister Felipe González of the absolute majority he won in general elections two weeks ago.

After a recount, it awarded a congress seat earlier gained by the Socialist Party (PSOE), in the Murcia constituency in south-east Spain, to the Communist Party-led United Left (IU) coalition.

The decision, subject to an appeal by the Socialist Party, brings the number of the members of Mr González's party in the 350-seat Cortes (lower house) down from 176 to 175 – one short of an absolute majority – and raises the strength of IU to 18 seats. In the 1986 elections the socialist Partido Obrero Socialista Espanol won 184 seats.

The loss of an absolute majority does not impede Mr González's re-election by Congress to serve as Prime Minister for a third term but, if the ruling is upheld, it will change the way the PSOE has been conducting parliamentary business since it first came to power in 1982, with 202 seats in congress.

The PSOE remains far stronger than the second-largest group in congress, the conservative Partido Popular (PP) party, which won 106 seats in the October 29 poll. Mr González needs only an outright majority in Congress when it meets at the beginning of next month to remain as prime minister.

Censure motions, which if successful would lead to new elections, also remain an outside possibility, since the PSOE seats in Congress equal the total number of those held by the opposition parties. The opposition ranks include five members of the extreme Basque separatist group, Herri Batasuna, whom no other party views as a potential legislative ally.

The absence of a majority does, however, mean the PSOE will not have the power it has had for the past seven years to decide unilaterally what is debated in Congress.

# J.P. Morgan appoints Englishman to head bank

By Anatole Kaletsky in New York

MR DENNIS Weatherstone, an Englishman who left school at 16 and never went to university, was elected chairman and chief executive of J.P. Morgan, traditionally the most blue-blooded bank in the US.

Mr Weatherstone, 58, has been president of Morgan since January 1987 and was widely expected to rise to the top position. But yesterday's promotion was, nevertheless, seen as an important symbolic milestone in Morgan's transformation from a tightly-knit private partnership – run by the cream of America's upper classes – into a global institution, with senior management drawn from a variety of international backgrounds.

Mr Weatherstone will succeed Mr Lewis Preston in January, the 10th anniversary of Mr Preston's appointment to the job. Mr Preston, 63, said he was stepping aside now, rather than waiting for the mandatory retirement age of 65, to give "ample time for the firm to benefit from Dennis Weatherstone's leadership." Mr Preston will continue to serve as chairman of the bank's executive committee.

## WORLD ECONOMIC INDICATORS

### UNEMPLOYMENT

| | Oct '89 | Sept '89 | Aug '89 | Oct '88 |
|---|---|---|---|---|
| W Germany 000's | 1,997 | 2,001 | 2,010 | 2,212 |
| % | 7.8 | 7.8 | 7.8 | 8.6 |
| US 000's | 6,561 | 6,584 | 6,421 | 6,518 |
| % | 5.3 | 5.3 | 5.2 | 5.3 |
| | Sept '89 | Aug '89 | July '89 | Sept '88 |
| UK 000's | 1,703 | 1,741 | 1,771 | 2,311 |
| % | 6.0 | 6.2 | 6.3 | 8.1 |
| Japan | 1,400 | 1,410 | 1,390 | 1,530 |
| % | 2.2 | 2.3 | 2.2 | 2.5 |
| Belgium 000's | 353 | 370 | 367 | 381 |
| % | 10.2 | 10.6 | 10.2 | 11.2 |
| France 000's | 2,534 | 2,532 | 2,547 | 2,574 |
| % | 9.5 | 9.5 | 9.6 | 10.2 |
| | Aug '89 | July '89 | June '89 | Aug '88 |
| Italy 000's | 3,878 | 3,870 | 3,860 | 3,801 |
| % | 16.6 | 16.5 | 16.5 | 16.2 |

Source: (except US, UK, Japan) Eurostat

# Montedison set to win Himont

By James Buchan in New York

MONTEDISON, the diversified chemicals group which is Italy's second-largest private sector corporation, is poised to gain full ownership of its Himont polypropylene subsidiary after outside directors at Himont agreed to recommend a $627m offer.

Montedison will this week offer $51 a share in cash for the 19 per cent of Himont that it does not own.

An earlier offer of $49 a share in cash and securities was rejected as too low by a special committee of non-affiliated Himont directors, advised by the Wall Street investment firm of Goldman Sachs.

The offer, which is seen on Wall Street as all but certain to succeed, will give Montedison total ownership of the world's leading manufacturer of polypropylene, a plastic resin used in fibres and various consumer and industrial markets.

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The relevant interest payment date will be February 13, 1990.

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(b) Distribution representing interest...US$13.02

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(1) Fees and compensation received by GMAC as Servicer and Guarantor...US$137,370.02
(2) Pool Balance...US$55,246,098.31
(3) Pool Factor... .1999250
(4) Guaranty Amount...US$2,762,304.92

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NOTICE

AMERICAN MEDICAL INTERNATIONAL N.V.
Zero Coupon Guaranteed Bonds Due August 12, 1997
Zero Coupon Guaranteed Bonds Due August 12, 2002

American Medical International N.V. (the "Company") hereby gives notice that a first supplemental indenture dated as of February 11, 1988 relating to the Company's Zero Coupon Guaranteed Bonds Due August 12, 1997 (the "1997 Bonds") and a first supplemental indenture dated as of June 23, 1989 relating to the Company's Zero Coupon Guaranteed Bonds Due August 12, 2002 (the "2002 Bonds") have been executed by the Company, American Medical International, Inc. (the "Guarantor") and Morgan Guaranty Trust Company of New York, Trustee. These first supplemental indentures eliminate Sections 4.06 through 4.11, which contained the financial covenants of the Company and the Guarantor, from the indentures relating to the 1997 Bonds and the 2002 Bonds.

AMERICAN MEDICAL INTERNATIONAL N.V.

Dated: November 13, 1989

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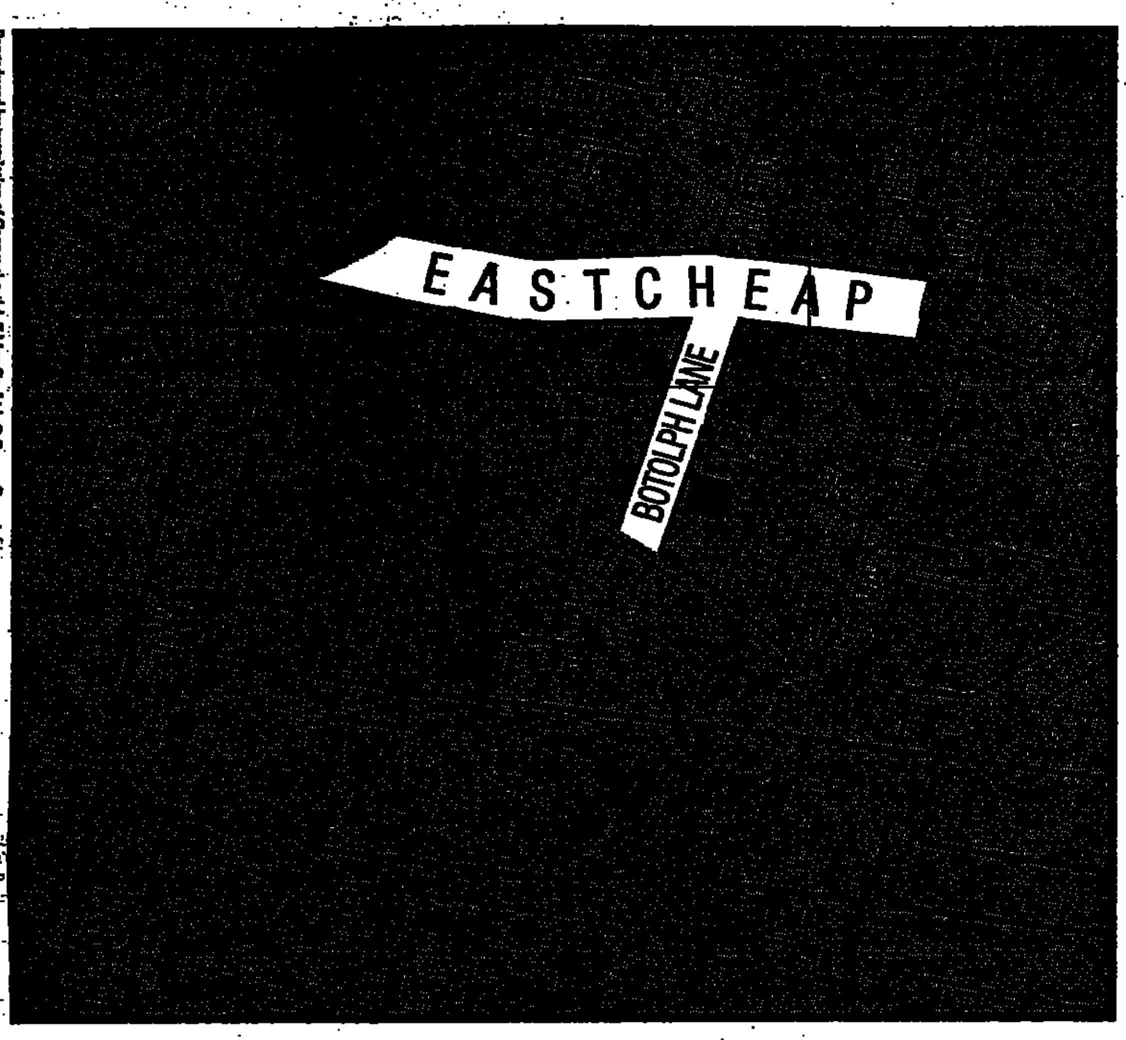


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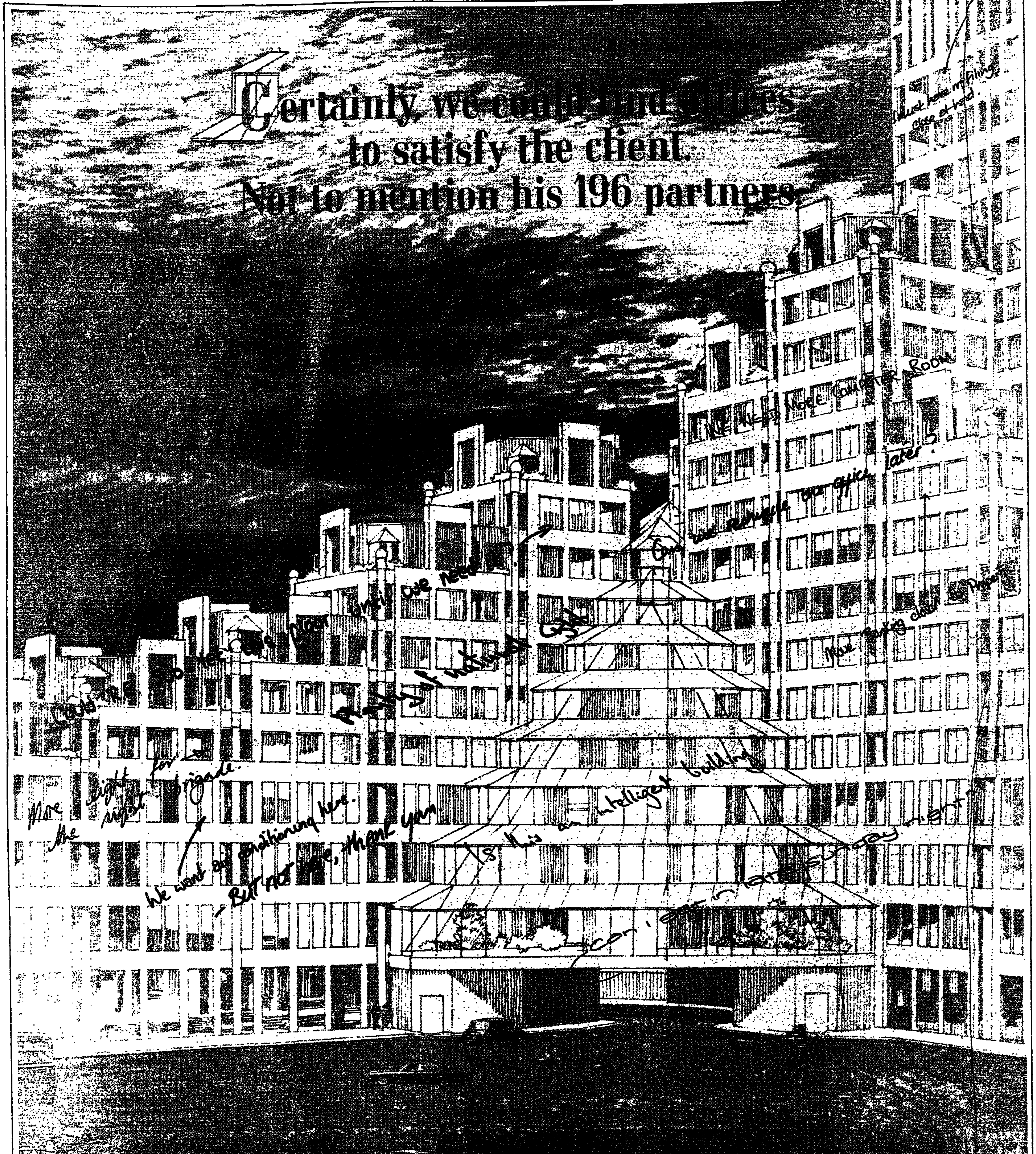


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## UK NEWS

# Manual workers vote on reduced working week

By Michael Smith, Labour Correspondent

MANUAL workers at NEI-Parsons, the Tyneside engineering company, will today vote on whether to accept an hours reduction agreement which would have widespread ramifications in British industry.

The proposed agreement, drawn up under threat of strike action at the company starting on Thursday, is one of only a handful at British engineering plants to introduce a 37 hour week for blue collar workers.

NEI-Parsons, a subsidiary of Rolls-Royce based in North-East England, said yesterday that the agreement would be self-financing. It was negotiated with unions after NEI-Parsons was chosen as one of seven plants at which strike ballots were held in support of a 35-hour working week.

Separately, members of the Engineering Employers Federation are believed to have voted in favour of allowing companies to be full members of the EEF without having to subscribe to national pay and conditions agreements.

The weakening of the EEF's national bargaining role lessens the chances of unions again conducting a rolling campaign of industrial action among its members. EEF leaders also hope it will encourage companies which have left to rejoin.

Union leaders said the NEI-Parsons deal would:

- Cut the working week of most workers in stages from the present 39 hours, starting with a one-hour reduction next January 1 and culminating in 37 hours from January 1, 1992.
- Introduce a 4½ day week. From 1992 finishing time on Friday for most workers would be 1pm against the present 3.30pm.
- Increase minimum time rates – on which overtime pay and shift premiums are based – by 11 per cent.
- Improve the conditions of manual workers so that they are more in line with those of white collar staff.

In return, the 1,730 manual workers at the NEI-Parsons plant in Heaton would have to agree to productivity concessions which would include the introduction of team working and multi-skilling arrangements.

# Shell UK chief set for rail chairmanship

By Maurice Samuelson

MR BOB REID, chairman and chief executive of Shell UK, is expected to become chairman of British Rail, the state-owned railway, in succession to Sir Robert Reid, who is due to retire in March, it was confirmed yesterday

The two men are not related but they are acquainted and Sir Robert, 69, is said to have a high opinion of his 55 year-old namesake.

The Shell chief has been asked by Mr Cecil Parkinson, the Transport Secretary, to take over BR when management morale is still dented by the defeat last summer at the hands of the trade unions over a pay dispute.

He will also have to deal with the Government's intention to denationalise the railways.

Sir Robert, a veteran of the London and North Eastern Railway from the last days before nationalisation, has shown strong resistance to the idea of breaking BR into competing private companies, reminiscent of the age of steam.

Although Mr Reid has not yet formally accepted the post, colleagues at Shell UK confirm that because of his many years of overseas service in the oil industry Mr Reid has passed his official retirement age and is free to begin a fresh career.

He is reported to have been offered a salary near his present remuneration of more than £130,000 a year. Sir Robert earns £92,000 a year.

Among others scouted for the BR job by Tyzacks, the London headhunter, were Mr David Simon, a BP managing director, Mr Peter Levene, the Defence Ministry procurement chief, and Mr Christopher Hogg, chairman of Courtaulds.

Mr Reid is likely to serve under Sir Robert as a part-time director for about three months before taking over.

Bob Reid: for British Rail

# Telecom to offer advanced picture service

By Hugo Dixon

BRITISH TELECOM, following a trend set in France and West Germany, is to offer early next year an advanced telecommunications service combining pictures, voice and data.

The service is designed to give customers the opportunity to use a series of sophisticated telecommunications applications which, until now, have been restricted to a tiny proportion of large business users. It is potentially one of the most important steps towards the creation of an information society and could revolutionise the way people do business.

Known as Integrated Services Digital Network (ISDN), the service has been talked about for more than a decade. However, Britain has moved more slowly in implementing the concept than some other European countries, notably France and West Germany.

BT is due to make an announcement of its plans for ISDN in the next two weeks. Last week, it confirmed that pilot services would be running by the end of this year and a full commercial service would be available soon after. However, it did not give any indication of how much the service would cost.

ISDN will enable people to talk to each other over the phone and, at the same time, exchange pictures or data via computer screens or facsimile machines. An advertising agency, for example, might wish to show its client a copy of its latest art work and discuss any changes to it simultaneously.

It is possible at present to talk and exchange pictures at the same time only if a customer has several phone lines each with a different piece of equipment on the end of it. The advantage of ISDN is that customers will need only a single telephone line at the end of which will be a single piece of equipment, combining the functions of phone, computer and facsimile machine.

Some experts doubt whether ISDN will take off, saying it will depend on how the service is priced and whether it satisfies genuine business needs.

The total programme, which is costing billions of pounds, will not be complete before the year 2000. However, BT expects to be able to offer ISDN throughout the UK by the mid-1990s.

Sell-offs in BT efficiency drive, Page 28

## In Brief

### Britain faces isolation over EC tobacco rules

EUROPEAN Community governments will today approve new rules on cigarette packet health warnings, leading to EC restrictions on tobacco tar content and advertising. Britain opposes the plan as an interference in sovereignty.

Britain will be isolated in opposition. Mrs Thatcher says the Brussels health legislation is a serious interference in national sovereignty, but she has dropped plans to take the matter to the European Court of Justice.

At talks in Brussels Health Minister Virginia Bottomley will state the UK case that successful voluntary codes with the tobacco industry will be threatened by binding EC regulations.

### Test for credits on YTS schemes

MINISTERS plan to test a Confederation of British Industry proposal to cut the wage support element of the Youth Training Scheme and give young people "training credits" of up to £1,550 each instead.

A pilot scheme to test the CBI proposal is being considered by Mr Norman Fowler, Employment Secretary, and Mr John MacGregor, Education Secretary.

### Lecturers to vote on industrial action

LECTURERS in UK further education colleges are being balloted on further industrial action – including a boycott of college examinations in a month's time – in their protest against a 5.3 per cent pay offer from education authorities.

The 55,000 lecturers will vote on a proposed one-day national strike on December 7, together with further local strikes.

### Employers resist rise in London weighting

EMPLOYERS are resisting another big increase in London weighting allowances like that of two years ago, but there has been a steady increase in their size and scope, according to a survey of allowances in London and the south-east.

### Demonstrators clash in London

RIVAL groups of demonstrators clashed in central London yesterday as up to 300 supporters of the National Front, the neo fascist party, held a memorial service to commemorate Britain's war dead.


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In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 8th February, 1990 has been fixed at 15.19375% per annum. The interest accruing for such three month period will be £382.97 per £10,000 Bearer Note, and £3,829.66 per £100,000 Bearer Note, on 8th February, 1990 against presentation of Coupon No. 6.

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| 9005 | Ass. Brit. Ind. Ord | 337 | -1 | 10.3 | 3.1 | 9.1 |
| 675 | Armitage and Rhodes | 27 | -2 | | | |
| 109736 | Bardon Group (SE) | 160 | -3 | 4.3 | 2.7 | 15.5 |
| 17801 | Bardon Group Cv. Pref. (SE) | 102 | -1 | 6.7 | 6.6 | - |
| 4657 | Bray Technologies | 77 | 0 | 5.9 | 7.7 | 6.8 |
| | Bremhill Conv Pref | 104 | -1 | 11.0 | 10.6 | - |
| | Bremhill 6¼ New C.C.R.P | 103 | -1 | 11.0 | 10.7 | - |
| 1129 | CCL Group Ordinary | 297 | +3 | 14.7 | 4.9 | 3.7 |
| 2163 | CCL Group 11% Conv Pref | 173 | 0 | 14.7 | 8.5 | - |
| 16740 | Carbo Plc (SE) | 210 | 0 | 7.6 | 3.6 | 12.4 |
| 770 | Carbo 7.5% Pref (SE) | 110 | 0 | 10.3 | 9.4 | - |
| - | Magnet Gp Non Voting A Cnv* | 1.5sus | 0 | - | - | - |
| - | Magnet Gp Non Voting B Cnv* | 0.75sus | 0 | - | - | - |
| 9558 | Isis Group | 120 | 0 | 8.0 | 6.7 | 6.9 |
| 23189 | Jackson Group (SE) | 108 | +6 | 3.6 | 3.3 | 12.6 |
| 21833 | Multihouse N.V.(AmstSE) | 280 | -5 | - | - | - |
| 1581 | Robert Jenkins | 155 | 0 | 10.0 | 6.5 | 5.6 |
| 17904 | Scruttons | 373 | -2 | 18.7 | 4.0 | 9.9 |
| 9242 | Torday & Carlisle | 299 | 0 | 9.3 | 3.1 | 10.4 |
| | Torday & Carlisle Conv Pref | 107 | -2 | 10.7 | 10.0 | - |
| 3442 | Trevian Holdings (USM) | 80 | 0 | 2.7 | 3.4 | 8.6 |
| - | Unistrat Europe Conv Pref | 150 | 0 | 9.3 | 6.2 | - |
| 5990 | Veterinary Drug Co. Ltd | 363 | -2 | 22.0 | 6.1 | 9.4 |
| 7168 | W. S. Yeates | 320 | -3 | 16.2 | 5.1 | 26.7 |

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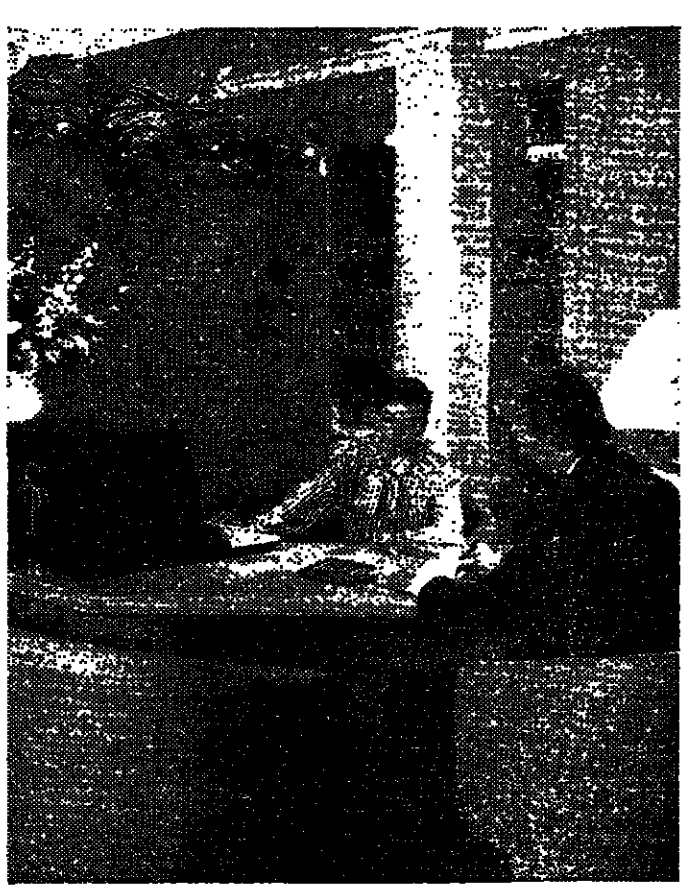

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## UK NEWS

# Water sale revenue may be at low end of estimates

By Andrew Hill

LATEST estimates indicate that next week's sale of the water industry could raise as little as £5.12bn – at the lowest end of City forecasts made before recent stock market and political uncertainty.

Advisers to the 10 water companies believe the Government's embarrassing withdrawal last week from the privatisation of the nuclear power industry has reinforced the need to make the water flotation as attractive as possible to investors.

A series of meetings between individual company chairmen and government officials and advisers began on Friday in an attempt to set relative dividend yields for the 10 businesses.

When the draft prospectus for the industry was published 10 days ago, indications were that the average yield might be about 8 per cent. On the basis of net dividend forecasts in the prospectus, flotation at that level would have realised about £5.6bn.

The average yield, it is now being suggested, could be as much as 8.75 per cent, which would cut nearly £500m from the potential sale proceeds but attract private investors who might otherwise be deterred by recent stock market volatility.

City analysts originally forecasted that proceeds might range between £5bn and £7bn. The Government has already written off nearly £5bn of debt and injected a so-called "green dowry" of £1.57bn.

Meetings with the 10 companies will continue until Wednesday. The final decision on details of pricing will take place on November 21, the day before publication of the full prospectus.

Government officials and company chairmen last faced one another over the negotiating table during the summer, when they were trying to set 10-year limits on price rises. Those meetings were often acrimonious, as companies held out for higher price rises.

The scope for negotiation is somewhat more limited in the latest round of talks, which were described last week as "genuine discussion," with the final pricing policy "very much a government decision."

● The Government expects that water flotation will have attracted more inquiries from the public than any previous privatisation except British Gas and British Petroleum once the share information office closes on Wednesday. By the end of last week more than 4m people had registered an interest – more than the total number who inquired about the flotations of Trustee Savings Bank, British Steel and British Telecom. Pre-registered investors will be eligible for a range of incentives, including bonus shares.

# Rise seen in demand for fossil fuel supplies

By Maurice Samuelson

THE COAL and electricity industries agreed yesterday that the demand for fossil fuel in Britain was likely to grow significantly as a result of the Government's decision to halt more nuclear power.

Electricity officials, who were previously sceptical about whether any new large coal-fired power stations would be built, said they had revised their outlook after the decision to shelve plans for three more PWR nuclear plants until at least 1994, when the first one at Sizewell, Suffolk, is to be completed.

They believe that more coal-fired capacity will be needed by about the end of the century, although they expect it to be on a different scale incorporating very different combustion technology to present coal-fired power stations.

In a rapid estimate of the implications of the Government's about-face over nuclear power, British Coal statisticians calculated that by 2000 the country would need the equivalent of 10m tonnes of coal more than would have otherwise been the case.

To stave off pressure for too fast a reduction in its prices, the corporation has tentatively agreed on an interim three-year supply deal with National Power and PowerGen.

It believes that the end of PWR plans has changed its bargaining power, increasing long-term reliance on UK coal.

● About £50m has already been spent by the CEGB on its attempts to build the three further PWR nuclear stations, writes David Green writes.

The money has been used for site investigations, detailed planning and testing, a year-long public inquiry and an order for a key component for the three plants – Hinkley Point C in Somerset, Wylfa B in Anglesey and Sizewell C in Suffolk.

Sizewell B, the construction of which is to continue, was to be the first in a series of four PWRs being built by the year 2000 at a total cost of £7.1bn.

Editorial Comment, Page 24

# Deputy governor of Bank may retire

By David Lascelles, Banking Editor

SIR GEORGE BLUNDEN, deputy governor of the Bank of England, is to become chairman of the newly formed London Pension Fund Authority, raising the likelihood that he will retire from the Bank next year.

A Bank official confirmed yesterday that Sir George had accepted the chairmanship but said he was unable to comment on Sir George's retirement plans.

Sir George's term of office ends in December 1990. However, his acceptance of the post makes it likely that he will leave the Bank in time to take it up next April.

His most obvious successor is Mr Eddie George, the executive director in charge of home finance, and one of the Bank's most influential officials in monetary policy matters.

Mr Robin Leigh-Pemberton, the Governor, was recently appointed for a further five-year term which he had every intention of completing, the official said.

Sir George has a reputation as a shrewd and firm-minded banking supervisor. He is believed to have been behind the Bank's tough line over City scandals in recent years.

Were he to be succeeded by Mr George, the emphasis of the deputy governorship would be certain to switch more in the direction of monetary policy at a time when issues such as membership of the European Monetary System will come to the fore. The Bank, unlike the Government, has always favoured EMS membership as a means of stabilising sterling.

The London Pension Fund Authority was created by the Department of the Environment to handle the pensions of employees of the former Greater London Council.

The announcement of Sir George's appointment before his future at the Bank had been clarified suggests there was some mix-up between government departments.

Top appointments at the Bank are made by the Crown and announced by Downing Street. It is rare for a senior Bank official's departure to be so obviously imminent without the announcement of his successor being made.

Sir George Blunden: to be chairman of pension fund body

# Property tax proposal sent to Gould

By Ralph Atkins

LABOUR is considering a system of local property taxes geared to take account of households' incomes as an alternative to the poll tax, or community charge.

Mr David Blunkett, Labour local government spokesman, has submitted details of the scheme to Mr Bryan Gould, the new shadow environment secretary.

The scheme would be a decisive break from the party's previous proposals for a "twin tax" system.

The proposed system is intended to be based on ability to pay – unlike the Government's poll tax scheme. At its core would be a property tax based on capital values but adjusted to take account of price differentials.

Lower-income households would benefit from a rebate system and higher earners would pay more.

# Labour Party needs vision, says professor

By Ralph Atkins

LABOUR IS good at exploiting government embarrassments but lacks a coherent alternative to the Conservatives' pro-market vision, a pamphlet from the Fabian Society, the left-wing think tank, warns today.

Professor Brian Barry, Professor of Politics at the London School of Economics, says Labour needs to do more than just attack ministers on traffic accidents, salmonella or unpopular measures like the poll tax and water privatisation.

"Under these conditions a Labour lead in the polls simply reflects dissatisfactions with the Government, rather than enthusiasm for a completely different set of ideas."

He adds: "Conservative governments have a way of pulling something out of the bag when it is needed – a well-timed boom or a foreign adventure, for example.

"There is, therefore, a strong case in terms of sheer electoral arithmetic for developing a genuinely different vision from that of Mrs Thatcher."

He criticises Labour's commitment to securing economic growth before public spending and says: "If you really think something is important, you show it by being prepared to give up something else in order to obtain it. Anything whose purchase depends on extra income is by definition a low priority item."

He highlights education, training and regional policy as priority areas where the impact of spending may not be fully realised for decades. "Any government that makes itself a hostage to the growth rate is doomed to spending five years of futility in office and then being dumped by the voters."

*Does Society Exist? Fabian Tract 536. Fabian Society, 11 Dartmouth Street, London, SW1 9BN. £2.*

# TV-am man's scheme studied

By Raymond Snoddy

LESS THAN a month before publication of the Broadcasting Bill, the Government is still investigating alternatives to its most controversial proposal – awarding commercial broadcasting licences to the highest bidder.

Officials have been asked to study the feasibility of a compromise put forward by Mr Bruce Gyngell, managing director of TV-am, the commercial television station, in a private meeting at 10 Downing Street with Mrs Margaret Thatcher, the Prime Minister.

Under present plans, licences would go to the highest bidder – after bidders passed an initial quality threshold – except in "exceptional circumstances." Any such exceptional circumstances specified by the Independent Television Commission, the body that will replace the Independent Broadcasting Authority, would be subject to judicial review.

The proposals from Mr Gyngell, one of the most free market-orientated executives in UK commercial television, seek to maximise the programme quality on offer to the public and the amount of money that would flow to the Treasury for the use of a scarce resource – the airwaves.

Before awarding the franchise to the highest bidder, the ITC could look to see if any companies making unsuccessful bids were offering a wider range of quality programmes. Such a company would then win the franchise if it was prepared to match the highest financial bid.

Mr Gyngell, an Australian, yesterday declined to discuss his meeting with the Prime Minister. It is believed he spoke of lessons to be learned from Australia, of which he has already said that the main commercial networks have been taken over by people with no experience of broadcasting.

# DIY heads retail returns league

By Maggie Urry

DO-IT-YOURSELF retailers achieve the highest return on capital of any retailing sub-sector, while jewellers have the biggest operating margins, according to a report. Of the top 20 UK retailers, Next, the fashion company, achieved the best return on capital in its latest full year, while Kwik Save, the discount food retailer, had the lowest balance sheet gearing.

These facts emerge from The Retail Ratios, a report on British retailing by Corporate Intelligence Group.

The report covers the top 400 retailing companies in the UK with a turnover above £2.5m.

Next produced the largest proportional rise in sales, boosted by acquisitions. Great Universal Stores, the mail order, property and finance group, achieved the highest operating margin. Tesco, the supermarket group, has the fastest stock turnover; Kwik Save the lowest staff costs to sales.

Another report, International Growth Retailers, by Management Horizons, lists the top 200 retailers in the world by various measures. The highest-placed British retailer in the ranking by total sales in 1987 is Dee Corporation, the food retailer since renamed Gateway and taken over by Isosceles. It is 20th in the ranking.

*The Retail Ratios, Corporate Intelligence Group, 51 Doughty Street, London WC1N 2LS. £120. International Growth Retailers, Management Horizons, Ryde House, 391 Richmond Road, Twickenham, London TW1 2EF. £85.*

# Henderson criticises idea of ICI break-up

By Jane Fuller

SIR DENYS HENDERSON, chairman of Imperial Chemical Industries, has said that a takeover and break-up of ICI would be possible, but it would harm both the company and the British economy.

Interviewed on the Channel Four programme Answering Back, he said ICI would consider asking the Government to block any takeover bid. "But we are certainly not relying on that."

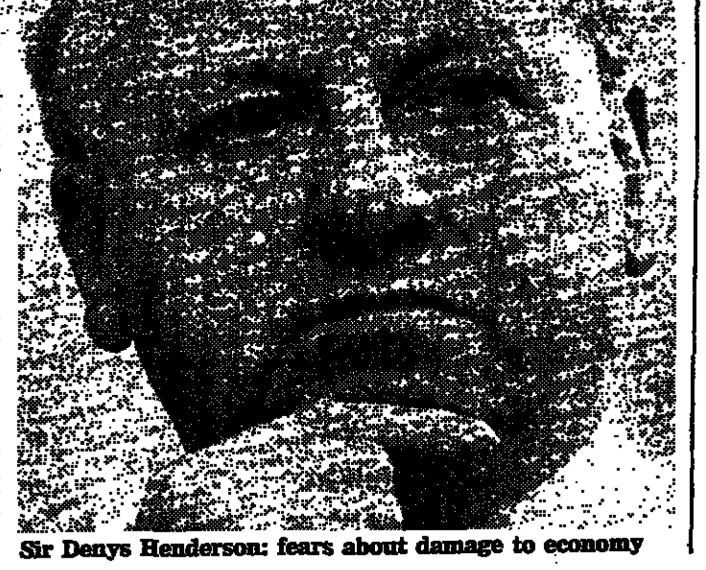
His fears about possible damage to the national economy if ICI were broken up were based on the outlook for civil research and development – 80 per cent of which was contributed by only 20 companies.

"I just cannot believe that if the company was broken up you would see the long-term investment in R&D," he said in the interview broadcast yesterday.

He was not unduly worried about a takeover. "There is such a strong inter-relationship between all our technologies that the unbundling concept would be very difficult. All the evidence says that our shareholders do take a long-term view."

Sir Denys also defended his recent £100,000 salary increase, part of which was performance related, as providing "headroom in our salary structure." He said his salary should compare with those of his opposite numbers in other companies. In 1988 Sir Denys was paid £478,099.

He also confirmed that ICI would stick with experimental work on advanced composite materials.



Sir Denys Henderson: fears about damage to economy

# Ridley to decide role of English Estates

By Hazel Duffy

THE ROLE of English Estates, the regional development agency, is to be decided early next year by Mr Nicholas Ridley, Trade and Industry Secretary.

A statement is expected today from the Government and English Estates announcing that consultants have been appointed to assess the role of the state-owned body in the property sector.

In carrying out the study Drivers Jonas, a firm of chartered surveyors, has been asked to look at alternatives, and particularly to evaluate the contribution of government incentives such as enterprise zones and grants in stimulating private sector property investment in the regions.

The report will go to Mr Ridley and the board of English Estates in January.

English Estates said it welcomed the study as an opportunity for its future to be clarified.

Ministers are also considering whether the assets of English Estates – valued at £367m in the last financial year – should be sold. That would be similar to the Government's plans for selling the substantial property portfolio of the old Scottish Development Agency (now Scottish Enterprise). A prospectus on that is expected before Christmas.

English Estates was set up in 1936 to build factories in depressed areas.

# Dillons' price cuts to be checked

By Jane Fuller

THE Publishers Association said yesterday it will check every title in the 25 per cent discounting campaign started this week by Dillons, the book retailer, to check whether the Net Book Agreement is being contravened.

Mr Clive Bradley, association chief executive, said if the NBA rules were being broken, the association would if necessary seek an injunction to stop the price-cutting. If they were not "net books," however, the association would welcome the promotional effort.

Dillons is part of Pentos. The group's chairman, Mr Terry Maher, has long campaigned against the NBA, which sets fixed prices for books. However, he said the initiative did not involve net books, so the recommended price could be varied without referring to the publisher.

"It will be the first time that newly published books have been offered at less than the cover price," he said.

This initiative and others in the new year would be aimed at seeing the NBA wither away through encouraging publishers to bring out more titles outside it, he said. "We are not just trying to reduce book prices, which is laudable, but to widen the market for books."

Mr Maher's within-the-rules initiative follows a decision by the Office of Fair Trading in August that the NBA should not be referred to the Restrictive Practices Court.

## NEWS IN BRIEF

### New rules give cause for concern

By Our Financial Staff

THE THREE-TIER regulatory regime planned for the investment industry will lead to more disciplinary cases, a greater burden on compliance officers and "an undesirable level of complexity" according to Norton Rose, the leading firm of City solicitors.

The Companies Bill is due to receive Royal Assent, later this month, providing the necessary legislative framework for the new regime. It will comprise a set of general principles, a second tier of rules laid down by the Securities and Investments Board, the main investment watchdog, and a third layer of rules and codes of practice established by the five self-regulatory organisations.

### Interest rates gloom

CONSUMERS should brace themselves for a prolonged period of sluggish growth and high interest rates, says Barclays Bank in its latest quarterly review of the UK economy, published today. But it does not expect a full-blown recession of the type experienced in 1974-75 and 1980-81.

Barclays says interest rates will not fall significantly until well into 1990 and are likely to be 13 per cent at the end of next year.

### New recession fears

THE British economy is in real difficulty and a recession next year might be unavoidable, the Engineering Employers' Federation claims.

In its monthly news letter the federation says any recession would be different from the one in 1980-81. "The engineering industries would feel a reduction in UK market business but export business seems likely to continue growing."

Sectors other than engineering would be more vulnerable this time, particularly those with weak exports.

### Energy saving

BRITAIN's expenditure on energy conservation is falling steeply despite Prime Minister Margaret Thatcher's claim that it is crucial in combating global warming. The Association for the Conservation of Energy, in figures out today, claims that the market for energy saving items such as insulation and heating controls will fall this year by an average 12 per cent.

Mr Andrew Warren, director of the association, said the figures had been sent to Mr John Wakeham, Energy Secretary, who had called energy efficiency "the single most cost-effective response to limit CO2 emissions."

### Fund guaranteed

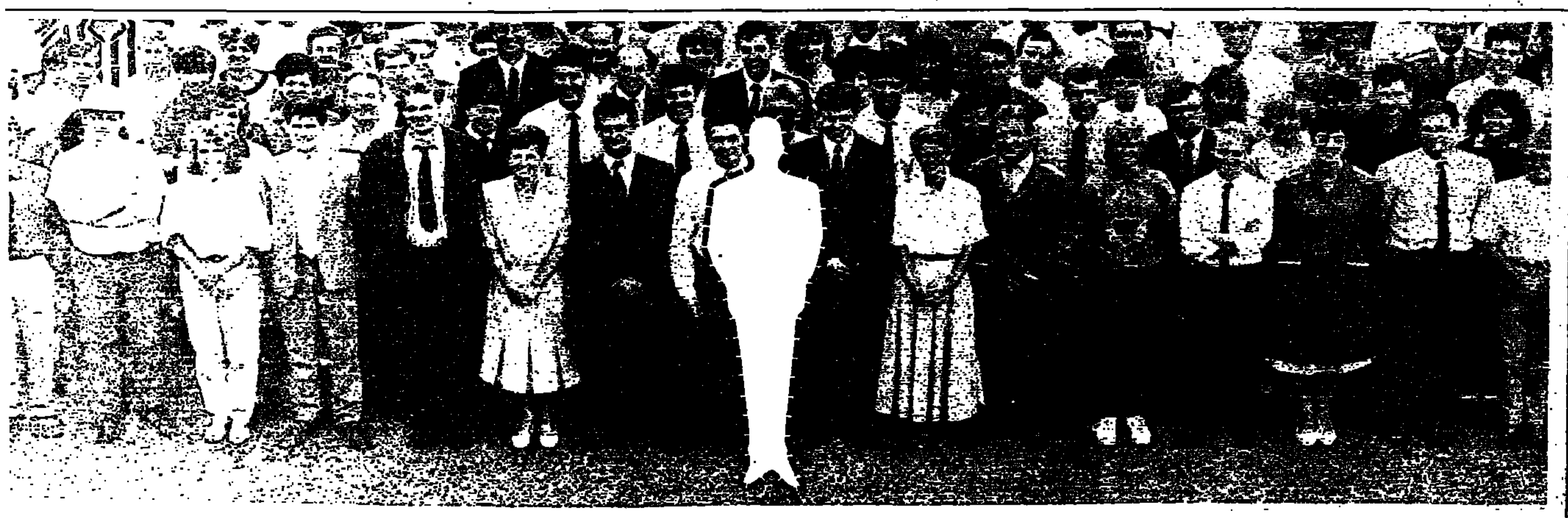
THE Government has attempted to save its housing action trust policy by making financial guarantees to Sunderland Council on the scheme's funding.

Similar guarantees are likely to be made to other councils where the Government wants to set up housing action trusts, in the hope of overcoming objections to the scheme.

### Northern venture

NORTHERN Investors, one of the first regionally-based venture capital funds in the UK, is to apply to the Stock Exchange to be quoted as a listed investment trust from next April.

The business is based in Newcastle-upon-Tyne and has been actively supported by the area's private sector leaders since its formation in 1984. Shareholders include many leading national pension funds, financial institutions and public companies.

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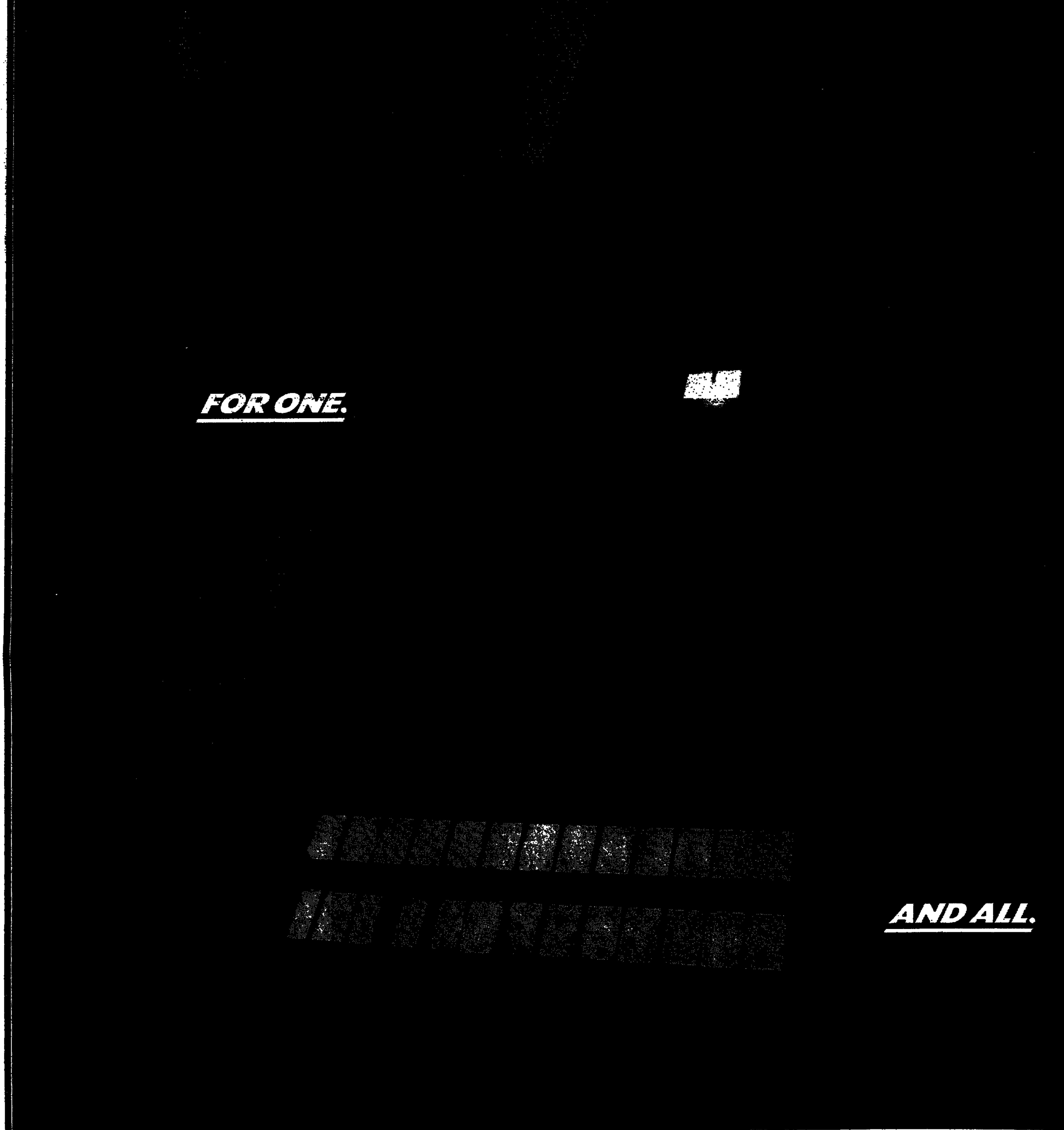


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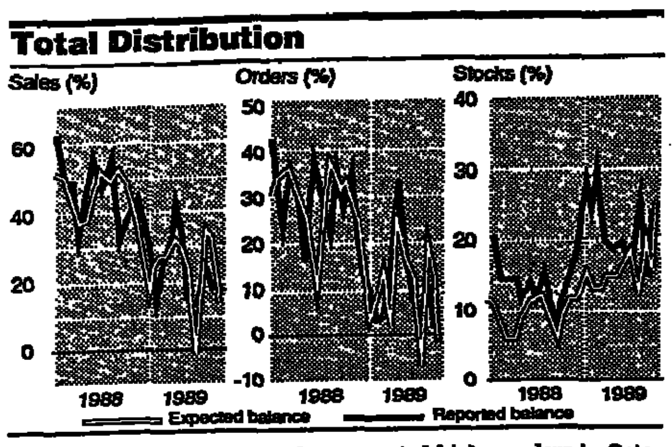
UK NEWS

CBI/FT DISTRIBUTIVE TRADES SURVEY

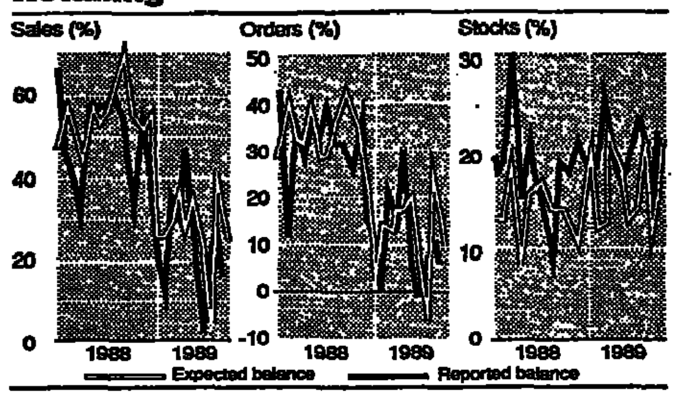
# Gloomy outlook as stocks rise and sales disappoint

By Simon Holberton, Economics Staff

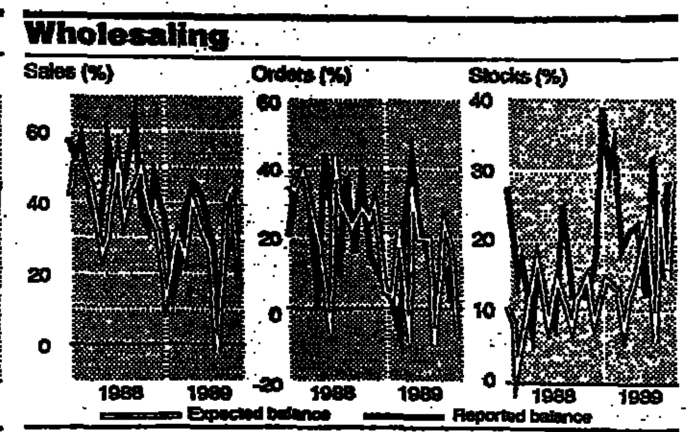
### Total Distribution




### Retailing




### Wholesaling




A RISE in stocks and a lower than expected sales performance are the two main elements underlining a fairly gloomy outlook for the retail, wholesaling and motor trades in October and November.

This suggests the Government's policy of high interest rates is continuing to depress sales in the high street and that demand may fall further.

The findings are in the October Confederation of British Industry/Financial Times distributive trades survey and should be a pointer to Mr John Major, the Chancellor, that monetary policy is biting.

According to the survey, which covered 502 companies in the retail, wholesale and motor trades between October 16 and November 3, overall distributors' sales – which were down on September – were described as poor for this time of the year and are expected to remain so this month.

Of the companies polled, 39 per cent reported higher sales volumes in October than a year earlier, while 21 per cent said they were lower. The difference between the two, which gives a guide to the trend in growth in sales, was 18 per cent – down on September's positive balance of 23 per cent.

Asked about the growth in the volume of sales this month, a balance of 14 per cent said they expected sales to be higher than in November last year. The CBI said this suggested that further slowing in sales growth was in train.

Distributors' stocks rose sharply in October and are expected to keep growing this month. A 24 per cent balance reported higher stocks last month compared with a 15 per cent balance in September.

The CBI said that growth in orders placed by distributors almost ceased in October and that expectations for this month pointed to lower orders relative to November last year. A positive balance of 1 per cent reported higher orders in October, but expectations turned negative (a balance of minus 2 per cent) for orders this month.

Of the 306 retailers questioned it appears that the annual growth in the volume of sales was lower in October than in October last year. The balance of respondents reporting higher sales last month was 16 per cent (down from 27 per cent in September).

A balance of 24 per cent expect an increase in sales this month relative to last November.

The CBI said chemists and grocers indicated the best sales increases in October. Shops selling footwear and leather goods; durable household goods retailers; and retailers of household textiles, furniture and carpets reported lower sales in October than a year earlier.

Growth in orders placed by retailers fell in October, against the expectations of September. A balance of 6 per cent of respondents ordered more than a year ago, compared with 11 per cent in September and a balance of expectations of 17 per cent. For this month, a balance of 10 per cent expected to increase orders.

Last month retailers built up more stocks of goods than they expected to do in September. A balance of 22 per cent of companies increased their stocks, compared with a balance of just 14 per cent who, in September, said they expected to raise stocks in the coming month.

A gloomier picture emerges for the motor trades from the CBI's October survey. For the sixth consecutive survey motor traders reported sales below 1988 volumes. A negative balance of 26 per cent said sales in October were lower than a year ago, while a negative balance of 44 per cent sales this month would be lower than November 1988.

Motor traders placed a lower volume of orders on suppliers in October with a negative balance of 30 per cent recorded – the lowest for five years. Stocks were run down in October but a build-up is expected this month.

The number of new vehicles registered over recent months has been very high. The survey appears to lend weight, however, to suspicions in the Treasury and Bank of England that dealers have been responsible for many of the registrations and that final demand for cars has been weak.

Wholesalers fared better in October than retailers or the motor trade. A balance of 27 per cent reported higher sales, although expectations for growth have moderated with a balance of 15 per cent expecting better sales this month.

The CBI said wholesalers of electrical installation material reported the fastest sales increases in October, while builders' merchants, agricultural machinery dealers and clothing, textiles and footwear wholesalers indicated lower sales than a year earlier.

In October a balance of 2 per cent reported ordering more than a year ago, down from a positive balance of 12 per cent in September. But future orders may fall with a negative balance of 7 per cent expecting to place fewer orders this month compared with November 1988.

# Prospects in construction sector look less hopeful

By Andrew Taylor, Construction Correspondent

FURTHER signs that investment in British construction may be starting to cool after eight consecutive years of growth appear in a survey of civil engineering companies published today.

The survey of 160 companies was conducted last month by the Federation of Civil Engineering Contractors. It shows that the proportion reporting falls in order books during the previous six months was the highest for three years.

The percentage of companies reporting increased order books was the lowest for more than five years.

The federation said companies hoped a big increase in spending on roads would be announced when Mr John Major, the Chancellor, made his Autumn Statement on Wednesday.

The Transport Department announced plans in May to more than double its spending on motorways and trunk roads to £12bn during the next decade. It said the pace at which funds were released would depend on annual public expenditure decisions.

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MARKS & SPENCER

## APPOINTMENTS

# Powder metallurgy posts

Mr David Rank (*left*) has been appointed director and controller of GKN powder metallurgy division, and director, controller and secretary of the divisional holding company GKN POWDER MET. He was group chief accountant of Kalamazoo. Mr Anthony Buttanshaw (*right*) becomes managing director designate of GKN Sheepbridge. He was business development director of the powder metallurgy division, and becomes managing director on the retirement of Mr Stuart Kennedy next month.

■ BARING SECURITIES has appointed Mr James Bax and Mr William Phillips as directors, and Mr Julian Marshall and Miss Karen Towner as assistant directors.

■ LEXINGTON SECURITIES has appointed Sir Victor Garland as a non-executive director. He is chairman of Stewart Nairn Group, and a director of Prudential Corp, and Throgmorton Trust.

■ BASS has appointed Mrs Gisela Gledhill as company secretary. She was company secretary of Consolidated Gold Fields, and succeeds Mr David Cutler who becomes director of administration.

■ Record Treasury Management, a subsidiary of N.P. RECORD, has appointed Mr Kevin Bailey, Mr David Murphy, Mr Michael Shilling and Mr Gary Vocat as associate directors.

■ From December 1 Mr Neil Hedges, Mr Howard Lee, Mr Alastair Eperon and Mr Chris North, all chief executives of VPI Group subsidiaries, join the board of VALIN POLLEN INTERNATIONAL. Mr Mike Potton has been appointed company secretary. Mr John Dembitz has resigned from the board.

■ THOMAS COOK has appointed Mr Anthony Sell as European director, responsible for travel, travellers cheques, and the foreign exchange network. He was a main board director at Boosey & Hawkes.

■ Mr Nick Burman has joined CORTON BEACH as finance director designate. He was group company secretary at French Connection.

■ Mr Rod Brown, managing director of Wilson (UK) Developments, has been appointed to the board of the parent company, the WILSON GROUP.

■ Mr Mike Johnson has been appointed technical operations director of LIVINGSTON HIRE. He joins from Thorn-EMI Datatech.

■ Mr Howard Trust has been appointed group legal director of BARCLAYS de ZOETE WEDD. He was group company secretary with Morgan Grenfell group.

■ Mr John Paton, managing director of Kenneth Wilson Group, has been appointed chief executive of sister company BEOCO (previously Bibby Edible Oils), seed crushing and oil refining arm of the South American Bunge organisation.

■ Mr Gerry Burton has been elected senior partner of HODGSON IMPEY, succeeding Mr James Donovan who has retired.

■ Mr Martin Helme has been appointed finance director of PROPELLOR. He joins from a similar post with Polly Peck International subsidiary Sunzest.

■ Mr John Sewell has been appointed managing director of DUNLOP automotive division, part of BTR. He joins from Land Rover where he was sales and marketing director, and succeeds Dr David Speirs who becomes chief executive of the BTR automotive group.

■ Mr Charles Hunter has been appointed managing director of GRI Electronics, and a director of the GRI GROUP, Perth. He succeeds group founder Mr Tony Twine who remains group chairman.

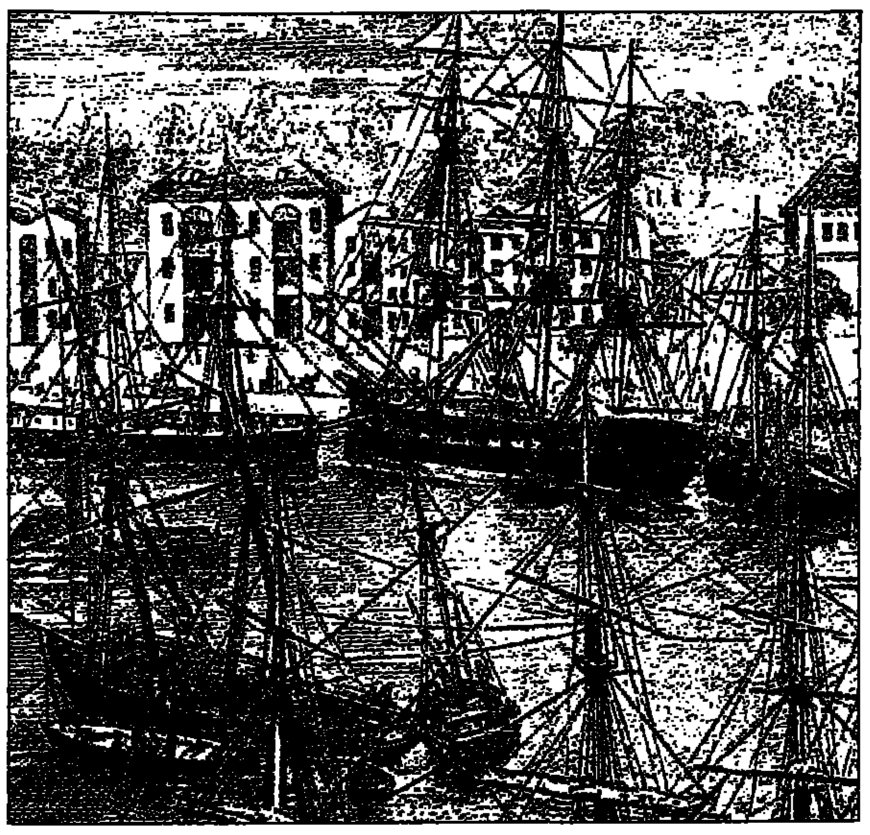
■ ODGERS & CO has appointed Mr Tim Chessells as a non-executive director.

■ Mr Stephen Moore, managing director of CBS/Fox Video, has been elected chairman of the BRITISH VIDEOGRAM ASSOCIATION.

■ Mr Alan Brooker has been appointed non-executive deputy chairman of SERIF COWELLS which makes Trivial Pursuit. He is chairman of Kode International, and deputy chairman of Provident Financial Group.

■ Mr Ignacio Lara has been appointed deputy managing director of INTERNATIONAL MEXICAN BANK, London, succeeding Mr Rafael Mancera.

# THE HISTORY OF AMP IS THE HISTORY OF INSURANCE



**1849** Australia, barely sixty years old, has a population of 350,000 scattered over three million square miles. Like Dickens' Britain, it is a rugged society where the death of a breadwinner often means destitution for his family. In Sydney, five men of vision found Australian Mutual Provident, and with prescience call it '...a Society which is destined to become the most powerful institution in the Southern Hemisphere.' In 1852 the first death claim is paid.

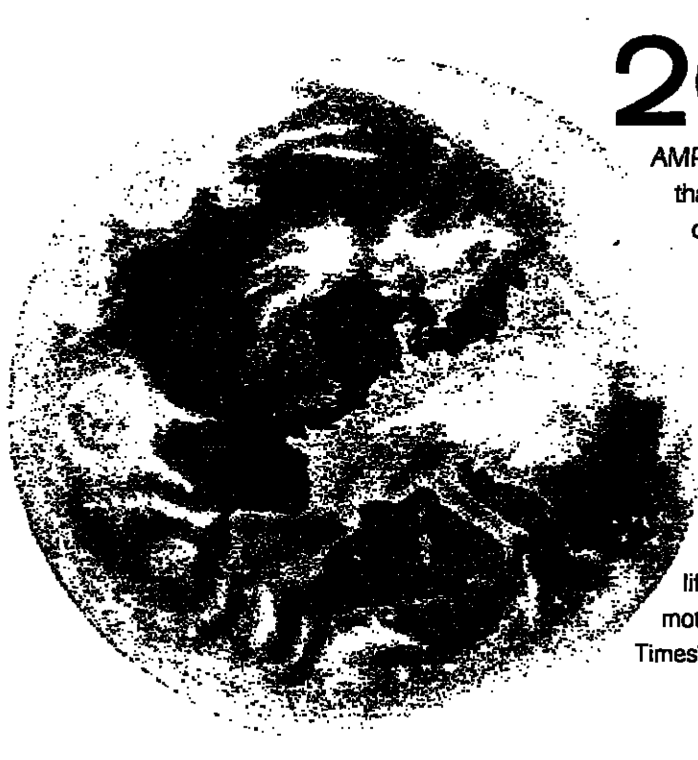
**1908**

AMP is now the largest insurance company in Australia and New Zealand. In the long golden summer of the British Empire, AMP opens an office in Edwardian London, commercial centre of the world. It is the heyday of 'industrial' assurance with weekly premiums of sixpence collected by bicycle-clipped agents. AMP brings new standards of idealism and probity to this, the working man's safeguard, and feels ready to work on a wider, international canvas.

Britain defies a Nazi Germany which has virtually all Western Europe under its heel. AMP covers war risks in full, without extra premium. On the domestic front, the way is opened for the first time for AMP to invest in stocks and shares and in property. The modern life insurance company, investment-conscious, and aware of its responsibility to maximise the savings and pension prospects of its policyholders, emerges from the furnace of war. **1940**

**1989**

'The security of policyholders is directly related to the strength of their assurance company.' Wise words, and never more so than in the '80s when, increasingly, the future of insurance belongs to the companies with the greatest global resources. AMP merges with London Life, harnessing this great insurance company's understanding of the UK market to the capital strength and international vision of AMP.



**2000**

AMP continues to pursue a strategy that made it one of the major players on the world insurance and investment stage. From its base in Britain and its homeland of Australia it has broadened to cover much of the world.

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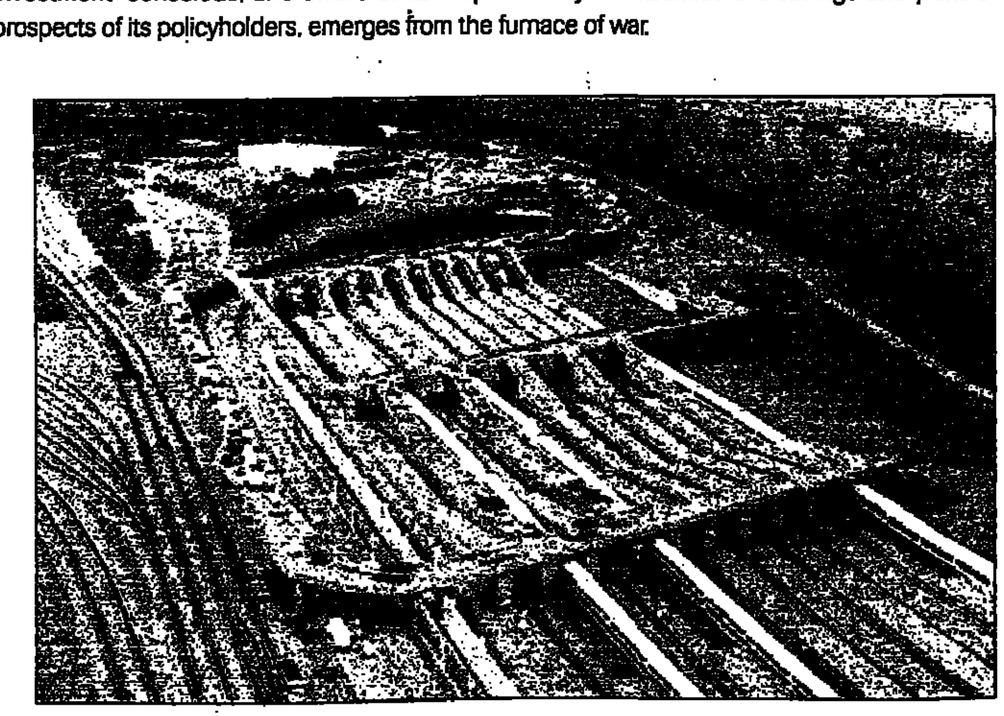

**1993** Britain has forged its links with Continental Europe more closely, physically with the opening of the Channel Tunnel, and politically and economically within the Common Market. AMP is now ready to compete in the insurance markets of Europe. It has introduced innovative insurance/investment plans giving a range of insurance options and also capital investment opportunities in one flexible policy.

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To the best of the knowledge and belief of the Directors of AMP UK (having taken all reasonable care to ensure that such is the case), the information contained in this advertisement is in accordance with the facts. The Directors of AMP UK accept responsibility accordingly.



# Lilley Group wins £44m orders

LILLEY GROUP has been awarded contracts totalling £44m during October. Orders were received by: Eden Construction, the Cumbrian-based subsidiary, £3.4m, including a £1.8m contract to extend and refurbish the catering building of Granada's M6 service station; Lilley Construction, £5.9m, including a £1.5m contract for the construction of a vicarage, hostel and flats for Portsmouth Housing Association; MDW, the Glasgow-based builders, £9.8m, including a contract for the construction of geriatric units at Ruchill Hospital worth £2.5m; Robison & Davidson, the Dumfries-based builder, orders totalled £3.5m, including a £1.1m contract to construct 37 flats in Stranraer; Standen, the Nottingham-based construction and housebuilding group, £21.4m, including a £8.9m contract for a housing development in Milton Keynes.

# CONSTRUCTION CONTRACTS

## Upgrading US medical centres

FEDERAL CONSTRUCTION, Trafalgar House's Florida-based subsidary, has been awarded two contracts totalling over US$70.5m (£45.5m).

The main project is a US$50m contract for modifications, improvements and additions to the Orlando Regional Medical Centres' downtown divisions. It includes 290,000 sq ft of construction to form four storeys, 65,000 sq ft of renovation work to six storeys, and 220,000 sq ft of refurbishment in three phases, over a six-year period.

Under a US$20.5m contract the Pasco County School Board has awarded Federal Construction the 250,000 sq ft River Ridge High School project. The High School will be coupled with the new River Ridge Middle School to form two "educational villages" connected by a "main street".

Each school will share services, including a 900-seat performing arts auditorium, administration, and guidance facilities, as well as two separate practice gymnasiums which open up into a 2,800-seat competition athletic facility. The site for the education complex is a 134 acre wooded copse in the new community of River Ridge.

## Easing traffic congestion in Glasgow

TARMAC CONSTRUCTION has won a £22.5m contract for a new section of motorway that will bring relief for Glasgow commuters by providing 4.7 extra miles of M80. The dual two-lane motorway will run from the Provan interchange on the M8 to rejoin the A80 at Crow Wood to the north of Stepps village.

To be completed early in 1992, the contract also calls for construction of three interchanges and associated side roads. The by-pass will reduce delays for traffic between Glasgow, Stirling and the North.

Part of the route will be within the City of Glasgow and this will be the responsibility of Strathclyde Regional Council, the remainder will be the responsibility of the Scottish Office. The scheme has been designed by Strathclyde Regional Council who will also supervise its construction.

## Refurbishing historic military building

COSTAIN has been awarded a £14.8m contract by the Property Services Agency for refurbishing the historic Royal Citadel, Plymouth, Devon.

This fort was built by King Charles II's chief military engineer, Bernard de Gomme, during the 1660s and has been described as one of the finest 17th century forts in the country.

The Citadel, at the eastern end of Plymouth Hoe, has been the home of the Royal Artillery since then. The contract comprises refurbishing mostly 19th century buildings. Others include three buildings dating from 1680 and the original ramparts, all Grade I listed.

The contract includes erection of buildings within the precinct and a new motor transport maintenance depot, with garaging and hard standings outside the precinct.

The masonry works, which total some 4,500 sq metres with a maximum height of 18 metres, will be built to match the rampart walls of the Citadel.

The contract includes electrical and mechanical services, associated roads, paving, landscaping and fencing.

Parts of the works will be investigated by English Heritage during the contract, which is due for completion at the end of December 1991.

## Salford Quays project

FAIRCLOUGH BUILDING, part of AMEC, has landed new business totalling £35m.

The biggest project is The Anchorage, a 290,000 sq ft office/retail complex in Salford Quays for AMEC Properties. The multi-floor development, the largest in the Quays, will feature a 10-storey glazed atrium in the largest of four linked office blocks.

In Salford, Fairclough is upgrading the five-storey Adelphi and Mathias tower blocks to provide flats for students from Salford University and for rent.

At Queensferry the company is building a depot for Manweb. The contract entails foundation preparation to counter difficult ground conditions.

* * *

TRENTHAM, construction arm of Egerton Trust, has a contract worth £8.3m from Dencora to build a 108,000 sq ft development in Southend-on-Sea. This will comprise two principal blocks of five and six storeys, with linking floors at first to fourth floor levels, with a semi-basement car park.

Trentham has also won an £8.7m contract to build a 78,000 sq ft ASDA superstore on a former Ford site at Dagenham.

# DIARY DATES

## FINANCIAL

TODAY

COMPANY MEETINGS-
Frogmore Estates, Frogmore House, 8, Manchester Square, W., 10.30
Westpool Inv. Tst., Carlton House,33, Robert Adam Street, W., 3.00
BOARD MEETINGS-
Finals;
BOC Grp.
Invicta Sound
Scottish Cities Inv. Tst.
Stanhope Properties
Interims;
Arlen
Cullen Hldgs.
Erostin Hldgs.
Owen & Robinson
Stratton Inv. Tst.
DIVIDEND & INTEREST PAYMENTS-
Arcolectric (Hldgs.) 0.48p
Do. A N/Vtg. 0.48p
BBA Grp. 2p
Boustead 0.5p
Capita Grp. 0.8p
Costain Grp. 4.78p
Dead Sea Works 28.5pc.
Highland Participants 2p
London Merchant Securities 2.4p
Macro 4 5.9p
Manders (Hldgs.) 2p
R&F Grp. 1.5p
Rentokil Grp. 1.73p
SD-Scicon 6½% Cv. Cm. Rd. Pf. 3.25p
Saga Grp. 2.3p
Scholes Grp. 5.22p
Treasury 3% 1991 1½pc.

TOMORROW

COMPANY MEETINGS-
China & Eastern Inv. Tst., 155, Bishopsgate, E.C., 11.00
Intereurope Technology Services, High Walls, East Street, Fareham, Hants., 11.00
Macklow (A.& J.), Chamber of Commerce, Edgbaston, Birmingham, 12.00
Raine Inds., Pennine Hotel, Derby, 12.00
BOARD MEETINGS-
Finals;
Compass
Five Oaks
Midsummer Leisure
Interims
Ambrose Inv.
Blacks Leisure
Hartwell
Just Rubber
London Int.
Marshalls
Meyer Int.
Thames TV
Tomkinsons
Unigate
Yeoman Inv. Tst.
DIVIDEND & INTEREST PAYMENTS-
British & American Film Hldgs. 2.05p
Clinton Cards 1.2p
Guinness 4.4p
Homestake Mining 5cts.
Ibex Hldgs. 1.9p
Kwik-Fit Hldgs. 1.04p
LASMO 3p
Merchants Tst. 2.025p
Minorco 28cts.
PFC Int. Portfolio Ptg. Rd. Pf. (Balanced Growth) 1.9cts.
Do. (Sterling Inc.) 3.9p
Do. (Strategic Reserve) 6.2cts.
Page (Michael) Grp. 0.8p
Smallbone 2.2p
Willis Faber 5.85p

WEDNESDAY NOVEMBER 15

COMPANY MEETINGS-
Cramphorn, Coton Mill, Chelmsford, 12.00
Goodwin, 1, Finsbury Avenue, E.C., 10.00
BOARD MEETINGS-
Finals;
Arlington Securities
Concentric
Jessups
Smiths Inds.
Interims;
AAH Hldgs.
Allied Irish Bank
British Airways
Davy Corpn.
Dunhill Hldgs.
Electrocomponents
Heath (C.E.)
Land Securities
Royal Insurance
TDS Circuits
Wagon Indl.
DIVIDEND & INTEREST PAYMENTS-
Abbott Labs. 35cts.
American Distributors 1.125p
Anglo-Eastern Plantations 1p
Arley Hldgs. 1.4p
Australian Agricultural 10cts.
Bancomer Sub. Flg. Rate Nts. 1985/90 $52.39
Barclays Bank 16% Un. Cap. Ln. 2002/07 8pc.
Do. 8¼% Un. Cap. Ln. 1986/93 4⅛pc.
Beattie (James) 6¾% 1st. Mtg. Db. 1985/90 3⅜pc.
Birmingham District Council 11½% Rd. 2012 5¾pc.
Britannia Bldg. Society Flg. Rate Nts. 1995 £360.67
British Sidac 6% Db. 1985/90 3pc.
Brunswick Corp. 11cts.
Burndene Invs. 15% Un. Ln. 2007/12 7½pc.
Chase Manhattan 59cts.
Chase Manhattan Corp. Flg. Rate Sub. Nts. 2000 $225.21
China & Eastern Inv. 3cts.
Colgate-Palmolive 45cts.
Conversion 10% 1996 5pc.
Conversion 9¾% 2006 4⅞pc.
Dolphin Packaging 1.2p
Exchequer 10¼% Cv. 1989 5⅛pc.
Exchequer 13¼% Ln. 1996 6⅝pc.
Export-Import Bank of Korea Flg. Rate Nts. 1995 $523.89
F & C Smaller Co's 6% Cm. Pf. 2.1p
Fairey Grp. 2.4p
First Chicago Flg. Rate Sub. Cap. Nts. Feb. 1997 $228.4
Hambros Inv. Tst. 5% Cm. Pf. 1.75p
Inter-American Dev. Bank 9¾% Ln. 2015
Italy (Republic of) 9½% Nts. 1995 4¾pc.
Korea Exchange Bank Flg. Rate Nts. 2000 $517.5
Leend Int. Invs. Gtd. Flg. Rate Nts. C 1997 $52.39
Lloyds Bank Ser.B Var. Rate Sub. Nts. 1998 £351.3
Marsh & McLennan 62.5cts.
Midland Bank Sub. Flg. Rate Nts. 2001 £175.34
Nat West Finance Junior Gtd. Flg. Rate Nts. $285.14
Newcastle & Gateshead Water 4.2% Max 2.1p
Do. 4.9% Max (1995) 2.45p
Do. 4.9% Max (1979) 2.45p
Do. 3.5% Cons. Pf. 1.75p
Do. 2.45% Perp. Pf. 1.225p
Nova Corpn. of Alberta 3¼cts.
Nu-Swift 7p
Ossory Estates 0.45p
Pacificorp 69cts.
Rathbone Brothers 1.6p
Refuge Grp. 7.25p
Royal Tst Dollar Inc. Fd. Ptg. Rd. Pf. 3cts.
Scottish American Inv. 4% Ird. Db. 2pc.
Standard Life Assurance 5% Perp. 2½pc.
Svensk Exportkredit 12¾% Nts. 1991 (Ser.A)(With Wrrnts) 6⅜pc.
Do. (Without Wrrnts) 6¾pc.
TSB Gilt Fd. Ptg. Rd. Pf. 3p
Treasury 12¾% Ln. 1995 6⅜pc.
Warner Comms. 17cts.
Weir Grp. 2.6p
Wells Fargo Flg. Rate Sub. Cap. Nts. 1998 $226.81
World of Leather 0.8p

THURSDAY NOVEMBER 16

COMPANY MEETINGS-
Allied Restaurants, 65, Holborn Viaduct, E.C., 10.00
Barratt Developments, New Connaught Rooms, Great Queen Street, W.C., 11.00
Druck Hldgs., Fir Tree Lane, Groby, Leicester, 12.15
GT Venture Inv. Tst., 8, Devonshire Square, E.C., 12.00
Gent (S.R.), Painters' Hall, 9, Little Trinity Lane, E.C., 12.00
Green (Ernest) & Partners, 65, St. Andrew's Hill, E.C., 3.00
Remus Hldgs., Palace Road, N., 12.00
BOARD MEETINGS-
Finals;
Burton
Interims;
Bank of Ireland
British Gas
British Steel
British Telecom
Coloroll
Locker (Thomas)
Regalian Properties
600 Grp.
Shires Inv.
Sketchley
THORN EMI
Wellcome
Witan Inv.
DIVIDEND & INTEREST PAYMENTS-
Bank of Scotland Und. Flg. Rate Prim. Cap. Nts. $517.5
Bankers Tst. Int. Cap. Gtd. Flg. Rate Sub. Nts. 1995 $230.0
British Telecom Finance 9⅞% Gtd. Bds. 1996 4[illegible]pc.
Courtney, Pope 5p
Goodwin 0.5p
Ingham (George) 1p
Liberty 1.4p
Do. N/Vtg. 1.4p
Lon. & Manchester 3.785p
Morgan Guaranty Tst Co. of New York Flg. Rate Dep. Nts. 1991 Y377833
Mosterlin Grp. 1.25p
SD-Scicon 0.275p
Sun Life Assurance 13.84p
Treasury 2% I.L. 1994 £1.0913
Wells Fargo Flg. Rate Sub. Nts. Feb. 1997 $230.00

FRIDAY NOVEMBER 17

COMPANY MEETINGS-
Dalgety, Centrepoint, 103, New Oxford Street, W.C., 11.30
Great Universal Stores, Chartered Insurance Institute, 20, Aldermanbury, E.C., 12.00
Honeysuckle Grp., 11, Regent Street, Leeds, 12.00
Lyles (S.), Wakefield Post House Hotel, Queens Drive, Ossett, 12.00
Renishaw, Post House Hotel, Alveston, Thornbury, Avon, 12.00
BOARD MEETINGS-
Finals;
South Green Hldgs.
Interims;
Cater Allen Hldgs.
Goldberg (A.)
Govett American Endeavour Fd.
Personal Assets Tst.
Shaw (Arthur)
Waddington (John)
DIVIDEND & INTEREST PAYMENTS-
Armstrong Equipment 4.25p
Barratt Devs. 10.18p
Brooks Service Grp. 1.84p
Cityvision 0.5p
Clondalkin Grp. 1.455p
Commercial Union Assurance 8.15p
Cramphorn 4.8p
Delaney Grp. 1.3p
Dewhirst Grp. 0.29p
Electricite de France 11¾% Gtd. Sec. Ln. 2009/12 5⅞pc.
Evered 1.6p
Expamet Int. 3.8p
Folkes Grp. 0.45p
Do. N/Vtg. 0.45p
Frogmore Estates 8.4p
GT Venture Inv. (With Wrrnts) 2p
Do. (Without Wrrnts) 2p
Hasbro 4cts.
Intereurope Technology Services 5p
Johnston Press 1.5p
Jones Grp. 3p
Laing (John) 3p
Do. A N/Vtg. 3p
Mackay (Hugh) 2p
R & V Information Systems FL0.0050S
Sintrom 1p
T & N 3.6p
Treasury 9% Ln. 1994 4½pc.
Westpool Inv. Tst. 2.15p

SATURDAY NOVEMBER 18

DIVIDEND & INTEREST PAYMENTS-
Helical Bar 1.6p
Treasury 10% 2004 5pc.

SUNDAY NOVEMBER 19

DIVIDEND & INTEREST PAYMENTS-
Exchequer 9% 2002 4½pc.
Treasury 10½% 1999 5¼pc.

## PARLIAMENTARY

**Today**

Commons: Opposition debate on Government policy on Cambodia.

Motion on European environment agency.

Opposed private business from 7 p.m.

Lords: Companies Bill, consideration of Commons amendments.

Trade Union Act 1984 (Amendment) Bill, third reading.

Question to Government on reclamation and recycling of waste materials.

**Tomorrow**

Commons: Guillotine motion on, and consideration of, Lords amendments to the Self-Governing Schools (Scotland) Bill.

Motion on NHS regulations in Scotland.

Motion taking note of EC document on bovine somatotropin.

Opposed private business from 7 p.m.

Lords: Local Government and Housing Bill, consideration of Commons amendments.

Debate on the report of the European Community's committee on habitat and species protection.

Question to Government on action following report on Wandsworth Prison.

**Wednesday**

Commons: Debate on developments in the European Community from January to June 1989.

Lords: Debate on report of the EC on relations between the Common Market and Japan.

Motion on Industrial Training Levy (Hotel and Catering) Order 1989.

Select committees: Environment: subject, pollution of beaches. Witnesses: Environment Department officials. (Room 21, 10.30 a.m.)

Energy: subject, electricity privatisation. Witnesses: Department of Energy officials. (Room 6, 11 a.m.)

Foreign affairs: subject, Strasbourg European Council. Witnesses: Mr Douglas Hurd, Foreign Secretary, and officials. (Room 8, 11.15 a.m.)

**Thursday**

Commons: Prorogation at 9.30 a.m.

Lords: Prorogation with Royal Assent at 9.30 a.m.

## Trade fairs and exhibitions: UK

**Current**
Caravan, Camping & Holiday Show (01-222 9341) (until November 19)
Earls Court

**Current**
"Daily Mail" International Ski Show (01-222 9341) (until November 19)
Earls Court

**Current**
Wholesale Buyers' Gifts Fair (01-855 9201) (until November 16)
Olympia

**November 14-16**
International Coil Winding Exhibition (0799 26699)
NEC, Birmingham

**November 14-16**
Industrial and Domestic Heating, Ventilating and Plumbing Exhibition (01-680 7525)
Olympia

**November 14-17**
International Bus, Truck and Car Product and Manufacturing Technology Exhibition and Conference – AUTOTECH (021-780 4171)
NEC, Birmingham

**November 19-22**
Business to Business Exhibition (01-729 0677)
G-Mex Centre, Manchester

**November 19-21**
CBI National Conference and Exhibition (01-379 7400)
Exhibition Centre, Harrogate

**November 24-26**
Computer Shopper Show (0625 879970)
Alexandra Palace, London

## Overseas exhibitions

**November 14-18**
International Maritime Equipment and Inland Shipping Exhibition (01-495 7977)
Amsterdam

**November 15-19**
International Machine Tools and Metalworkings Trade Exhibition and Conference – THAI METALEX (0494 729406)
Bangkok

**November 18-24**
Hotel, Restaurant, Cafeteria and Commodities Equipment Exhibition - HORECA EXPO (01-639 7265)
Ghent

**November 20-24**
International Maritime Exhibition - EXPOSHIP RIOMAR (0206 45121)
Rio de Janeiro

**November 21-25**
Furniture and Woodworking Machinery Show (01-379 0765)
Taipei

**November 27-30**
Money Exhibition (01-930 3881)
Dubai

## Business and management conferences

**November 13-15**
The American Tax Institute in Europe: 12th annual congress (01-935 7502)
Cannes

**November 13-14**
AIDA International: Trade in the single European market (Brussels 32(0)2 345 99 23)
Copenhagen

**November 14-16**
Blenheim Online: Computers in the City (01-868 4466)
Barbican Centre

*Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published*



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MANAGEMENT

Business ethics

# Will the practice ever emulate the theory?

Christopher and Clare Lorenz report on a recent conference

After decades of doubt about the whole concept of business ethics, an impressive-seeming body of European companies has adopted codes of ethics and corporate conduct over the past five years. Others are planning to follow suit.

However, many of the codes are either ineffective in themselves, or are enforced inadequately. The same is true in America, where codes of corporate ethics have been commonplace for much longer.

That is one of the discomforting conclusions to be drawn from research presented at the second conference of the European Business Ethics Network, which was held recently in Spain.

Companies were attacked roundly at the conference for ducking the more difficult ethical issues which confront them. Significantly, the criticism of the way codes are enforced was made not only by several academics but also by one top industrialist, Dr Wisse Dekker, chairman of Philips, the Dutch electronics multinational.

The whole concept of business ethics is that a corporation, and the people working in it, need a framework within which they can deal with workplace and external issues that have a moral dimension.

The rapid growth of European interest in business ethics, in the wake of the recent spate of insider trading scandals and environmental accidents, was underlined by the strong attendance at the conference: 160 executives and academics, compared with only half that number at the first European Business Ethics Network conference in 1987 in Brussels.

Among the companies represented were Philips, Pilkington, GEC, IBM, Barclays and NatWest banks, Digital Equipment, Electricité de France, and Nestlé.

Executives from several of them spoke strongly in favour of higher standards of ethical behaviour, but not all excelled themselves; the president of Nestlé's Spanish offshoot, for instance, raised eyebrows by making a speech on "ethics in the corporation" which failed even to mention his parent company's much-criticised past promotion of powdered baby milk in developing countries suffering from contaminated water supplies.

The inadequacy of many corporate codes of ethics in the face of real business situations came through crystal clear at the conference. For one thing, it was reported that a quarter of European companies with codes fail to circulate them to external interest groups and even all employees.

Second, many companies – US and European – seem to lack effective mechanisms to enforce their codes. Third, many codes give little if any guidance about how to behave in markets and countries where corruption or other malpractice is the norm. Fourth, many are seen even within the company as little more than window-dressing.

Finally, nearly half the US codes do not cover the conduct of individual employees in the workplace; in European companies, the conference was told, *individual behaviour tends* always to be included.

The comparative research on US and European codes was presented by Bodo Schlegelmilch, a professor of marketing at the University of Wales in Swansea. More and more European companies were introducing their own codes, he reported, although they were still well behind the US. Whereas about 75 per cent of companies are now thought to have codes, about 40 per cent of a sample surveyed in the UK, France and Germany had them by 1988, compared with only 14 per cent in 1984.

US and European codes differed markedly, Schlegelmilch reported. Apart from the difference in treatment of employee conduct, far more US companies than Europeans included behaviour towards customers and suppliers in their codes. Within Europe, French companies were more concerned than the British about customers, while the Germans paid far more attention to the environmental impact of technology than either the British or the French.

In a keynote speech, Wisse Dekker of Philips spoke up strongly in favour *of corporate codes (though his own* company has not quite got round to formulating an explicit one yet).

A code had several positive aspects, he said. "It sets the mood in the corporation and influences the corporate culture. It can motivate the employees. It makes clear – inside and outside the corporation – what behaviour is or can be expected. It functions as an attestation."

Yet codes were not without problems, he admitted. Apart from the frequent lack of sanctions against breaking the rules, codes could only formulate principles at a relatively high level of abstraction, said Dekker. Their application in practical and sometimes unique situations "remains difficult."

Dekker's questioning of corporate practice towards ethical *dilemmas* was positively mild compared with that of a leading US expert, Richard De George, who holds the intriguing title of "distinguished professor of philosophy and management" at the University of Kansas.

The installation of ethical "hot lines" to give individual employees access to top management, or to independent ombudsmen, was of little help in many cases, De George complained. They were intended to be helpful if, for instance, a building worker knew that concrete was being *dangerously diluted, or if an employee* was told to falsify a record. But such cases of "whistle-blowing" rarely led to a company changing the structure or the system that had created the malpractice in the first place.

Nor did internal "whistle-blower" systems help companies which were driven to compete in ways set by the least ethical companies in their industry, De George complained. The only feasible solution in such cases was industry-wide structural change.

De George was one of the few speakers to deal with the thorny question of how western companies should behave in corrupt markets and countries. One answer, he suggested in all seriousness, might be a requirement on such companies by their home governments for them to disclose extortion payments, and explain why they were necessary. "If extortion *is* morally permissible, why don't companies get up and say so to their shareholders?" he asked.

It was usually inadequate for a company to impose an effective foreign bribery self-restriction on its employees, said De George. Nor was it enough for individual countries, such *as the US, to restrict the behaviour of* their national companies.

What was possible, he suggested, was for all the companies in an industry, regardless of nationality, to agree not to pay bribes – and enforce that agreement. But there was also a need for the rapid development of more international guidelines and institutions, along the lines of the Foreign Corrupt Practices Act in the US and the Sullivan principles covering companies operating in South Africa.

Confronting the common criticism from the Far East, Africa and elsewhere that western concern about theethics of bribery is a matter of cultural imperialism, De George said he knew of no country in which bribery of high government officials with large sums of money was practised openly and justified publicly.

On the sidelines of the conference, De George and other participants were involved in a heated debate over his contention that the problem for individuals involved in business situations – whether abroad or at home – "isn't *knowing* what's right, but *doing* what's right."

Thomas Dunfee, from the University of Pennsylvania's Wharton School, claimed that lying was seen by most executives "as OK in some contexts." And, for the greater good of the corporation, a manager faced with the decision whether or not to pay a bribe "may absolve himself."

On the other hand, Dunfee pointed *out, morally-minded employees often* incurred the wrath of their companies. A well-known instance discussed at the conference was the treatment of an "O" ring seal expert employed by a NASA supplier who tried to stop the launch of the fatal Challenger flight in 1986.

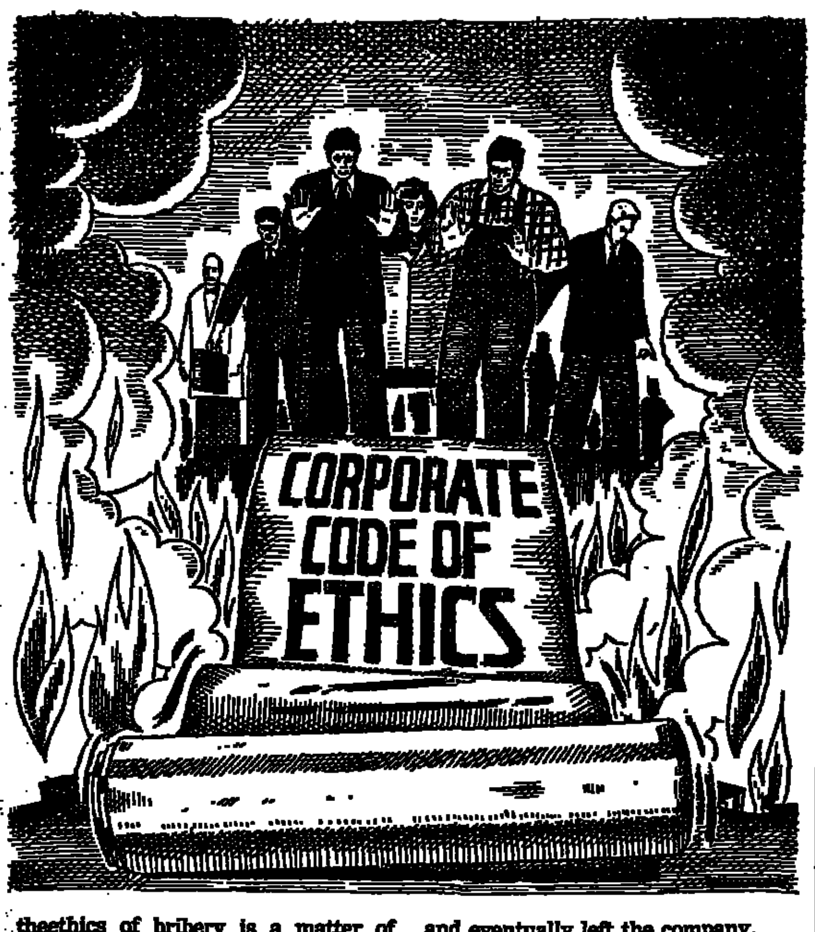
The firm stand taken by this single employee was overruled by his top management, supposedly for the company's good. Despite a national inquiry which praised the position he took, he was chastised by his chief executive for airing the organisation's dirty linen in public, was demoted, and eventually left the company.

The tricky question of where ethics starts and public relations finishes was raised by Ian Griffiths, a senior public affairs executive at NatWest Bank. Corporate affairs programmes should move on from their current pre-occupation with donations to charitable organisations, and instead get involved with the wider community and other issues affecting business, he argued.

Concerned that demands on all these fronts could overload business with unfulfillable expectations, Professor Jack Mahoney, director of the Business Ethics Research Centre at Kings College, London, warned against the danger of companies bowing to pressures from particular special interest groups.

Instead, they should develop proper policies on a wide range of ethical *issues. At a national level he feared* that the British government was offloading onto business social responsibilities which were rightly its own concern.

As if to underline that ethics pays, the secretary of Barclays Bank, Michael Atterbury, noted that Barclays shareholders – some of whom have complained persistently about the ethics of its operations in South Africa – had not questioned the bank's membership of Britain's "Per Cent Club", whose members contribute at least half a per cent of their pre-tax profits to charity.




Import duties

# Consider designing the product with customs in mind

Peter Montagnon on tariff management

Most companies devote a large amount of time and effort to ensuring that they pay as little *tax as possible. All too few stop* to wonder how much they are handing over to the authorities in the form of import duties.

This is the view of Michael Booth, Director of Customs Services at the accountancy firm of Deloitte Haskins & Sells. Booth, who is also chairman of the Confederation of British Industry Customs Policy Panel, says companies often run up substantial bills on customs duties which could easily be avoided, particularly *if they are relying heavily on* imported components.

The idea that tariff liabilities can be managed in a similar way to tax payments comes as a surprise to many executives who simply assume that these are charges from which there is no escape. In fact, says Booth, the savings from pro-active management in this area can run into millions of pounds.

He cites the case of one of his clients that was importing stacked microchips bonded into one piece to insert into its machinery. It told its freight forwarder that the products were "microchips" which currently attract duty at a rate of 14 per cent. In fact he was able to advise them that the correct customs classification for the goods in question was "computer parts" which attract a rate of duty of only 4 per cent.

Even when a reclassification solution is impossible, there may be ways of reducing a high duty by reconfiguring the *product in question, he adds.* Had the company actually been importing microchips and bonding them together in the UK it would have been sensible to have this assembly carried out abroad. "It helps if you design the product with customs considerations in mind in the first place," Booth says.

Another case in point is diesel engines which are classified for customs duty by size. A higher tariff normally applies to those over two litres. That means there is no sense in an exporter developing a 2,005 cc engine. He can give his foreign customer a much better landed price by offering an engine just *below two litres.*

Another way of minimising duty is to unbundle products. Software is not dutiable because it is classified as a service; hardware is. By unbundling the pricing of products which contain both software and hardware it is possible to avoid paying unnecessary duties on the software element of the package.

A similar principle can be made to apply to royalty payments which are dutiable if *they are included in the price* of an imported product, but not if they are paid on a foreign product assembled locally in the UK.

Booth says that the lack of awareness shown by major companies in this area has also led them to neglect lobbying opportunities that arise when tariffs are under international negotiation, for example as at present in the Uruguay Round of multilateral trade negotiations. "It amazes me that we don't get more CBI members raising these sorts of question," he says.

The European Commission in Brussels, which is responsible for Community tariff policy and is the ultimate recipient of all duties collected by the member states, is also "happy" to get representations from industry even though it does not always react to suggestions it receives. Changes in rules of origin and preferences granted to developing countries may have important *financial consequences for* businessmen inside the Community.

Approaching tariffs in this way is, however, now a slowly growing business. According to Booth, who says he pioneered the idea when he was at Arthur Andersen in 1984, all eight leading UK accountancy firms now offer a service in this field. But the problem is still that in many companies "financial management only takes an interest when something goes wrong."


CONTRACTS & TENDERS

TURKISH AIRLINES INC.

Announces that jet fuel A-1 is required for the period from January 1st 1990 to December 31st 1990 (inclusive) at European, Middle East, Far East and U.S.A. airports will be purchased under sealed tender by adjudication. Bidders must deliver their proposal on or before 5 December 1989 local time by 10.00 a.m. to the Turkey address below. Bidders wishing full information on bidding and list of technical and administrative conditions should contact;

Turkish Airlines Inc.
11-12 Hannover Str,
London W-1-R-9HF
or
Directorate of Purchasing and
Stock Control Department.
Ataturk Airport, Turkish Airlines Inc
General Management Building, B/Block
Floor/A (Asma Kat) Istanbul/Turkey
Telex: 28871
Phones: 010 901 574 74 05
010 901 574 73 00 Ext: 1006 or 1008
Fax: 010 901 574 74 44

LEGAL NOTICES

1989 No. 438SP
THE HIGH COURT
IN THE MATTER OF:
INISHTEC PUBLIC LIMITED COMPANY
(FORMERLY INISHTECH CAPITAL FUND PLC)
AND THE MATTER OF:
THE COMPANIES ACTS 1963-1986

NOTICE IS HEREBY GIVEN that the Order of the High Court of Ireland dated the 6th day of May 1989 confirming the reduction of the capital of the above named Company from IR£16,210,076 to IR£15,600,000 and the Minute approved by the Court showing with respect to the share capital of the Company as altered the several particulars required by the above Acts, were registered by the Registrar of Companies of Ireland on the 2nd day of November 1989.
Dated the 9th day of November 1989.
Signed William Fry
Solicitors for the Company
Fitzwilton House
Wilton Place
Dublin 2

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PERSONAL

ALAN, I was very rude to you last Monday. I apologise. Please ring 845-7777. DEBBIE

WORLD PULP + PAPER

The Financial Times proposes to publish this survey on:

12TH DECEMBER 1989

For a full editorial synopsis and advertisement details, please contact:

Alison Barnard
on 01-873 4148

or write to her at:

Number One
Southwark Bridge
London
SE1 9HL

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES CONFERENCES

WORLD TELECOMMUNICATIONS
London, 4 & 5 December, 1989

The FT's annual conference on World Telecommunications will take place at a time when the industry is facing its most dramatic period of change. The two-day meeting will commence with a major forum reviewing the developing pattern of deregulation. Speakers on the European approach to communications will include Paul Quiles, French Minister of Posts, Telecommunications & Space; Dr Christian Schwarz-Schilling, West German Minister of Posts & Telecommunications and Ing Marino Benedetti, Counsellor, Societa Finanziaria Telefonica pa. Competition in the US telecommunications market will be reviewed by Alfred Sikes, newly appointed Chairman of the Federal Communications Commission, and the Japanese experience of deregulation will be given by Eisuke Kusaka, Executive Vice President & Representative Director, Nippon Telegraph & Telephone Corporation.

CAPITAL MARKETS WORKSHOPS
4-6 December, 1989; 21-23 March 1990;
16-18 May 1990 - London

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The prospect of a decline in the number of young people entering the labour market in the 90s, the problem of securing people with the right skills and the internationalisation of management will be the subject of this high-level conference. Speakers include: Sir Edwin Nixon, CBE, DL, National Westminster Bank PLC; The Rt Hon Norman Fowler, MP, Secretary of State for Employment; Tony Raban, Forum Européen de l'Orientation Academique; Professor Dr Matti Otala, Nokia Corporation; Ivan Yates, British Aerospace plc, Eric Friberg, McKinsey & Co; Professor John Ashworth, Salford University; Sir Bryan Nicholson, The Post Office, CBI Education & Training Task Force; Angus Fraser, Chloride Group plc; Professor Paul Evans, Institut Européen d'Administration des Affaires (Insead); Richard T. Noonan, Ford of Europe Inc; John De Leeuw, Philips International BV.

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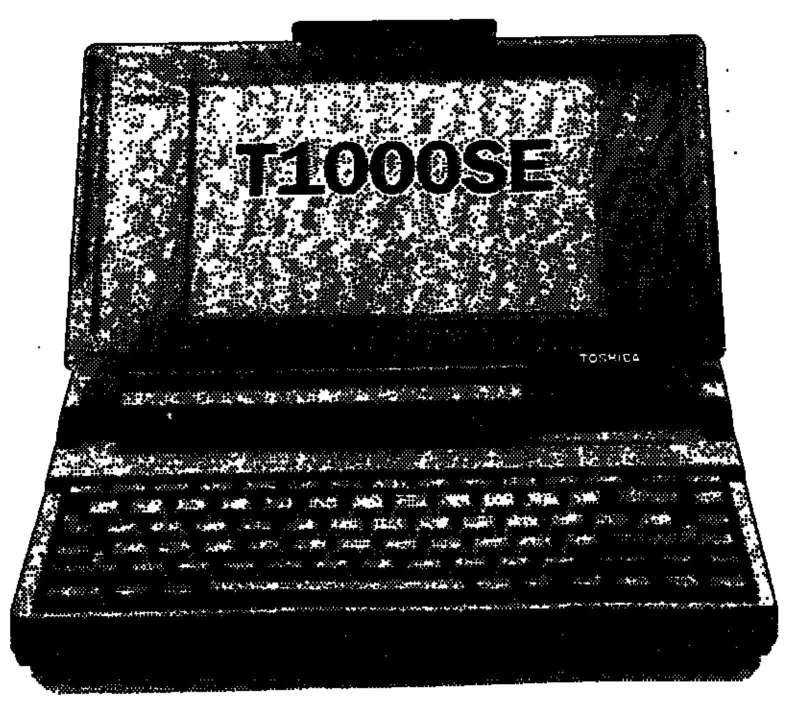


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ARCHITECTURE

# Flowering in the face of commerce

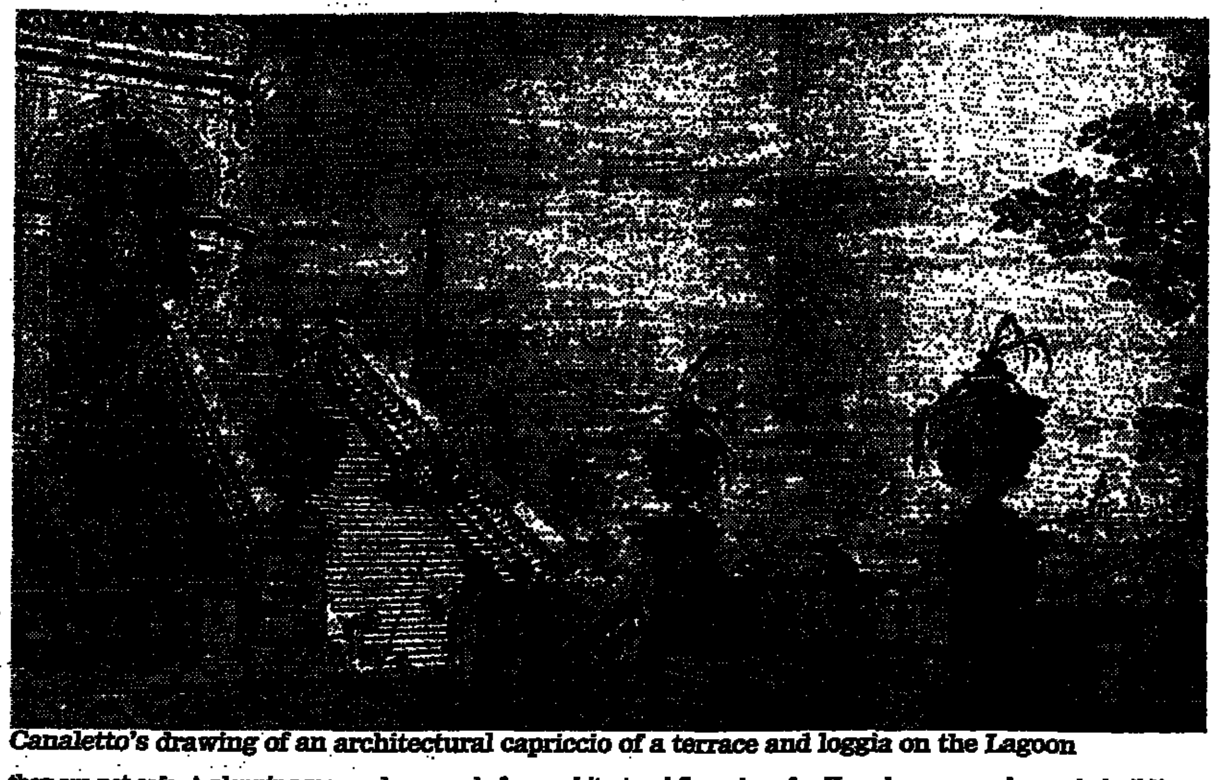
## From New York, Colin Amery thinks all cities could benefit from Canaletto's insight

As election fever recedes in New York, the new administration may have a brief pause to look at the shape of the city. In architectural terms, excitement is limited. The departing Mayor Koch will be remembered for his *laissez faire* attitude to development and for substantial improvements on the New York Subway (which is now cleaner, faster and more efficient than London's). New money, the utilisation of air rights and a more or less complete decline in the zoning laws are the factors colouring New York's architectural development. The result is a crop of commercial post modern buildings to commemorate the Koch years.

The major characteristics of these are an apparent solidity – less glass and more granite. There is the inevitable atrium – nowadays a much more elaborate place than the glazed hall of plants of the 1970's. The current commercial style reaches its apotheosis in the office blocks and Winter Garden of the new World Financial Centre at Battery Park City. This development by Olympia and York (developers of Canary Wharf in London) has rightly been praised for its landscaping and treatment of the riverside walk. Architecturally, the contribution of the office blocks is much more dubious.

The recently opened Winter Garden is another story. It is a huge space with an arched glass roof that oversails the towering palms flown in from hotter climes. The scale and the detailing is Babylonian. A flight of giant marble steps cascades to the ground in the manner of those staircases for the stars on television chat shows. The massive structure and the arched vault are undeniably impressive, but the space does not have the dignity of the interior of Grand Central Station or the massive halls of the Rockefeller Centre. In both of those buildings their architects were not unwilling to incorporate figurative sculpture and decoration. The randomly placed work of abstract art does not have the same humanising effect.

There is one other element in the New York street that remains a humanising influence among the canyons of commerce. The churches of New York remain both architecturally and culturally important. But they are not safe. A planning proposal called Proposition Three may allow churches to slither out of their protected landmark status.



*Canaletto's drawing of an architectural capriccio of a terrace and loggia on the Lagoon*

Because of the apparent shortage of prominent building sites, churches offer developers an amazing plum. The drama over developing the church lands around St. Bartholomew on Park Avenue still simmers. The church authorities have emerged, not surprisingly, as keen on property development and the potential for exploitation of the ecclesiastical buildings of New York, both Episcopal and Roman Catholic, is enormous.

★

There is nothing new in the conflicts of values that arise in the redevelopment and growth of great cities. New York has much in common with the Serene Republic of Venice, where commerce flourished but art was also allowed to bloom. The exhibition of the work of Canaletto at New York's Metropolitan Museum of Art (until January 21, 1990) can be seen as a record of an architectural flowering of a great commercial city.

Architects attempt to impose order on the world. Artists, too, try to establish a structure behind the things that they see. Canaletto (1697-1768) is one of the very few artists who has succeeded in establishing a sense of universal cohesion and order behind the architecture of a whole city. Venice is not painted by him as a mere microcosm of urban life: the city is seen as an ordered manifestation of human architectural creativity.

In his opening lecture, J.G. Links quoted the words of G.P. Guarenti about Canaletto. "He paints with such accuracy and cunning that the eye is deceived and truly believes it is reality it sees, not a painting." Because he followed the rules of artistic composition rather than just painting what he saw, he imposes his vision of a city upon our consciousness. It is not possible, after however brief an acquaintance with Canaletto's pictures, not to see the world partly through his eyes. He places people and buildings together so that man appears to occupy an ordered and rational universe.

Architecture can impose this order; and it is only from the vision of artists that architects can learn how to place buildings, how to order a city and how to inspire the spectator. Whoever is to be the master planner of the new Paternoster Square next to St. Paul's Cathedral needs at least the eye of a Canaletto to make an appropriate setting for Wren's classical masterpiece.

Architectural historians will enjoy seeing the square at San Marco only paved in part. Was this picture painted as the old brick paving of the piazza was gradually being replaced by marble in the 1720s? There is scaffolding on the dome of Santa Maria della Salute in the eastward view of the Grand Canal – perhaps making this one of the earliest pictures, as we know of repairs in 1719.

There is undoubtedly, despite the drama of light and water, a curious flatness about the architecture of some of these early paintings. There are strong shadows in the Dresden version of the painting of the Scuola di San Marco and the church of SS Giovanni e Paolo; but the scuola is two-dimensional, almost a model of a building, not quite real. This feeling is reinforced by Canaletto's constant use of back lighting.

The imaginative theatricality of Canaletto is exuberantly displayed in the capricci or allegorical tomb paintings commissioned through Owen McSwiney. It is a joy to be able to compare these early pictures with the later Lovelace capricci and the drawings that are such elegant models for Canaletto's architectural fantasies.

Only Canaletto could have successfully combined Roman, Venetian and Paduan buildings, even setting them in a "suggestion" of an English landscape. He shows in these paintings that he could, had he chosen, have been as good a landscape painter as he is a townscape painter. It is surely Canaletto's topographical knowledge that makes these stylish fantasies possible. To see Eton College chapel on the Brenta, or Box Hill in Surrey adorned with Roman ruins, is an enjoyable and deliberate topographical and architectural tease.

Architectural knowledge led to architectural invention. Perhaps the best example in the exhibition is Canaletto's submission to the Venetian Academy. He chose to paint a capriccio that transforms the Gothic palazzo of the Ca' d'Oro into a structurally uncertain fragment of an imaginary Baroque villa.

English visitors to the exhibition will be particularly delighted by the array of English scenes. They have enormous topographical interest because London has, unlike Venice, continued to destroy its architectural heritage. In the view of Whitehall from Richmond House it is the ordinary buildings and activities that enchant the artist. He paints views, but always in the foreground are scenes of humanity and cultivated liberty. They are qualities that are often dangerously ignored in modern cities. They spring from shared views on civic beauty: Canaletto shows us that this was something utterly understood by the commercial Venetian Republic.

# Travels With My Aunt

**CITIZENS THEATRE, GLASGOW**

One of Grahame Greene's funniest novels has been transposed to the Glasgow stage with a good deal of grace, wit and vigour. This is not a clumsy reduction of a prose narrative, but another fascinating experiment in theatrical story-telling of the sort director Giles Havergal developed with Shared Experience, using Richardson's *Pamela* and Elizabeth Bowen's *The Heat of the Day*.

Like the RSC in *Nicholas Nickleby*, Havergal employs the third person voice, that of the retired bank manager Henry Pulling, as a positive, not apologetic, device. The adaptation crowds the stage with characters, but only four actors, dressed identically in grey suits, maroon V-necks.

While Christopher Gee lingers upstage in a minor capacity as a choreographic counter-weight, the main spinsterish persona is divided among the other three, all mustachioed: Havergal, tall and fussing; Patrick Hannaway, squat, square and suburban; and Derwent Watson, primly twinkling, almost demure. Each is both all of Henry and various aspects of him.

Havergal's production, co-directed by Jon Pope, is beautifully plotted in every sense. The actors first sit on green chairs at right angles to the audience, surrounded by Stewart Laing's green garden walls studded with potted dahlias (Henry's sole domestic passion). Different locations are indicated on an illuminated strip suspended among a forest of flags. When, after the interval, Henry goes up the river from Argentina to Paraguay, the chairs are mauve, the flags replaced with hanging streamers.

The dialogue is sensibly lifted direct from the novel; the staging is a tribute to its vivacity and structure. The first encounter of Henry and his aunt at his mother's funeral is balanced against the discovery of the loyal Miss Paterson at his father's grave in Boulogne. The tea-leaf episode in Brighton corresponds to the palmist's intervention on the boat.

The cunning impression is that very little of the novel has been left out while the event does not depend on you knowing it. Scenographic detail, such as among the hearty clientele of the Coach and Horses and in the louche lounge behind the Messagero, is conveyed in sharp brush strokes. And Visconti's escape from Rome in 1945 as a disguised Monsignor is an episode of economically executed farce, even down to the flattened dog.

The supporting cast sprouts from the stern solidity of each Henry. Havergal squawks imperiously throughout as Aunt Augusta. Hannaway handles to perfection the shady police chiefs and, most memorably, the rolling gait, thick Jamaican accent and bitter sadness of the loyal valet Wordsworth. Watson, a fast-improving performer, is ideal as both the doe-eyed hippy girl on the Orient Express and her estranged father, the CIA man who keeps urinary charts and is after Visconti's supposed Da Vinci drawing.

The central theme of the seduction of innocence by experience is gloriously fulfilled at Henry's staying away party: the fourth man shimmies round the stage with drinks, balloons cascade down from the flies, and the Henries exchange grey suits for tropical white. Delightful.

**Michael Coveney**

# New patronage in an enterprise culture

## Denys Sutton argues that Thatcherite Britain has been good for the arts

It has become part of the contemporary demonology that the present Government is hostile to the arts and that Mrs Thatcher should be billed as an arch philistine. Whenever museum men and women or arts administrators are gathered together, they gnash their teeth about the Prime Minister's alleged indifference to the arts and, metaphorically, burn her image at the stake.

In some respects, the Government deserves its poor reputation and some would argue that Richard Luce, the Minister for the Arts, has shown little skill in defending its policies. Above all, he has failed to draw attention to the significance of the Thatcher Revolution for the creative arts – the visual arts especially. This is partly due to the fact that the arts are generally taken to refer mainly to the performing arts – opera, ballet, concerts and theatre.

Moreover, the recently published 44th annual report of the Arts Council reveals that the arts are now interpreted in a different way – and in a much broader sense – than in the days of the founding fathers of this institution. It shows that one of the aims of the Arts Council is to support the arts for social and ethnic rather than for aesthetic reasons. Thus Peter Palumbo, the new chairman of the Arts Council, claims in his introduction to the report that the arts will make a significant contribution to the regeneration of the inner cities and that "we must focus particular attention upon experimental art."

Many no doubt assume, as I did until reading this curious document, that the Arts Council was concerned with quality and that the grants went only to the Royal Opera House and the Welsh opera company and bodies of this nature, major exhibitions, a few worthwhile magazines and theatre companies of which some might well be experimental. It comes as something of a surprise to find that subsidies are given to Carnival bands and many odd-sounding organisations. What is clear is that support for what might be termed "High Art" is by no means the only consideration of the Arts Council.

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The arts are also considered to include the museums. That considerable attention is given to the role of the museums at present is made clear in the recently published and hard-hitting *The British Museum. Purpose and politics* by Sir David Wilson, the Director of this institution. He correctly argues that scholarship must remain the basis of its functions. He also rightly notes that sponsorship for exhibitions and other projects is becoming harder to find.

Although most observers of the museum scene will endorse Sir David's views in general, his case against the introduction of entrance charges is not as watertight as it might have been because he fails to supply comparative figures for the masses of people who visit the Louvre, the Musée d'Orsay and the Uffizi. These museums are invariably packed tight with crowds. In any event, is it a disaster if the number of visitors falls?

One major topic, the question of acquisitions for museums, is discussed in the recent report of the Reviewing Committee on the Export of Works, a body headed by Jonathan Scott, the banker, whose volume on Piranesi I had the pleasure of reviewing in these pages. The type of work that should be retained in this country is Velazquez's Portrait of Pareja, now in the Metropolitan Museum. The contentious subject of exporting works of art requires to be tackled in a realistic manner and a sense of proportion needs to be maintained: a high degree of selectivity has to be practised in adding to the national collections, and second and third rate items have to be dropped. Here the role of proper tax concessions has to be carefully and urgently studied.

Unfortunately, what needs to be remembered in trying to secure works for the nation is that, whereas we have inherited collections that were built up, both publicly and privately, during a period of great affluence, this situation has ceased to exist. Our ambitions are no longer matched by our resources.

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No doubt problems of this sort will be discussed at the symposium devoted to the Art export controls and 1992 organised by the National Art Collections Fund at the Royal Institute in Albemarle Street today. Two main matters deserve consideration on this occasion. First, what will be the relationship between local legislation governing the export of works of art, as for instance exists in Italy, and the rules of the EEC as interpreted, in case of appeal, by the European Court.

The second matter is of a more general "philosophical" character and relates to whether exports should be controlled at all. In this respect, it has to be recalled that the US surely deserves its share of what is as much its heritage as it is our own. Ever since the time of Thomas Jefferson, Americans have shown their profound affection for European culture: it is only necessary to recall their patronage of the great French sculptor Houdon or of French 19th-century art.

Another aspect of the art scene should be emphasised, namely that the enterprise culture has stimulated considerable patronage of living artists. Such support is mentioned by my colleague William Packer in his preface to the catalogue of the New English Art Club show now at the Mall Galleries. Most commercial galleries would confirm that modern artists sell better than ever before in our time. An indication of this trend is that nearly all the works in the exhibitions of two young painters, Stephen Conroy and Christopher Couch, at the Marlborough Gallery found buyers.

Thus we are enjoying a situation which resembles that of the Victorian period when, as the remarkable exhibition of the Pre-Raphaelites at the Laing Art Gallery, Newcastle-upon-Tyne, indicates, hard-headed businessmen were by no means shy about supporting even "aesthetic" painters.

Mr Palumbo contends that the new rich should return part of their wealth to the community. I am all for philanthropy but, as far as concerns the visual arts, the right policy is for patrons to back their fancy, thus ensuring a diversity of artistic expression and avoiding the hegemony of an official "modern art" taste. If, as is to be hoped, the contemporary artist continues to flourish it will be partly due to the existence of new wealth. In the end, Mrs Thatcher may have the last laugh.

# Twelfth Night

**BIRMINGHAM REP**

If reviewing our Second City's *Twelfth Night* on behalf on the Commission of Racial Equality, I would be gratified. As a community leader in an inner city area I would be encouraged, though I might regret that a predominantly black show draws an overwhelmingly white audience. As a theatre critic I have to report one of the worst Shakespearian performances of my experience.

The usually admirable Pip Broughton's production is simply not thought through; and not helped by a delivery of our national poet's lines that ranges from the mechanical to the mangled.

The action unfolds in the Caribbean. Jacqueline Gunn's set is the window display for a travel agency: all palm trees, winding steps, slatted shutters and tropical greenery. The latter masks both Olivia and Malvolio at their first entrance. The subsequent dialogue was invisible from my fairly central seat, as it was for the beginning of the letter scene.

It is the present, with lightweight suits for the court of Orsino, a balding greybeard whom Thomas Baptiste endows less with paternal than with grandfatherly venerability. In one of the production's surprises, splashing and floundering herald the arrival of a dripping Viola and Sea Captain, heaving themselves out of a pool for "What country, friend, is this?" Viola dons the least becoming disguise ever sported by a Cesareo: shorts, bomber jacket, forage cap – though this lends credibility to her relationship with Craig Stevenson's podgy Sebastian.

Toby Belch in vest, filthy trousers and red braces, is first perceived in full-frontal urination. There is quite a bit of this in the production, with real gushing water; evidently the latest theatrical gadgetry. This shanty-town Sir Toby makes no sense as a kinsman, however parasitic, of Ellen Thomas' stately Olivia in what seems to be full Edwardian mourning fig. Even less sense is made of Aguecheek in wire-rim specs, khaki shorts, flowered shirt draped with tourist camera und mit a comic Cherman eccent (*why?*)

Aguecheek's puffing on a joint easily upstaged Malvolio's unobtrusive reproaches to the revellers. Even when visible, Joseph Charles' pleasant-looking young steward spoke the lines as if their full import had yet to be explained to him.

A number of tried and trusted players engage in damage limitation. Judith Jacob, an unfailingly stylish young actress, emerges relatively unscathed as Maria. Jim Findley's intelligence is wasted as an undercharacterised Feste. Chris Tajah's vigorous and dignified Antonio makes a mark. Jan Ravens looks plumply worried and gives signs that she could be a touching Viola. The calypso-style songs are heavily miked. Youngsters in the audience may think this is Shakespeare. And not return.

**Martin Hoyle**


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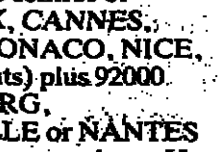

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## ARTS GUIDE

November 10-16

MUSIC

**London**

**Paco De Lucia Group**, Spanish guitar. Royal Festival Hall. (Mon) (928 8800).
**Contemporary Music Network.** ASKO Ensemble conducted by Denis Cohen performing Stockhausen, Boulez, Varese and the first performance in England of Xenakis' Echange. Queen Elizabeth Hall (Thur) Queen Elizabeth Hall (928 8800)

**Paris**

**Orchestre National de France** conducted by Lorin Maazel. Beethoven (Mon) Chatelet (40282828).
**Ensemble Orchestral de Paris** conducted by Arpad Gerecz, with Gary Hoffman (cello): Mozart, Tchaikovsky, Dvorak, Bartok (Tue) Salle Gaveau (45632030).
**Jorge Bolet**, piano. Brahms, Rachmaninov, Fritz Kreisler (Wed) Théâtre des Champs Elysées (47203637).
**Orchestre de Paris** conducted by Semyon Bychkov, Orchestre de Paris choir conducted by Arthur Oldham. Haydn, Rossini (Wed, Thur) Salle Pleyel (45630796).
**Orchestre National de France** conducted by Lorin Maazel. Beethoven (Thur). Chatelet (40282828).
**Mikhail Rudy**, piano. Chopin/Liszt (Thur). Théâtre des Champs Elysées (47203637).
**London's Nash Ensemble** conducted by Lionel Friend: Spohr, Ravel, Britten, Mozart (Thur). Auditorium des Halles (40282828).

**Brussels**

**Belgian National Orchestra** conducted by Paul Strauss with Ulrike-Anima Mathe (violin). Debussy, Mendelssohn and Prokofiev (Thur) Palais des Beaux-Arts.
**Itzhak Perlman** (violin) with Bruno Canino (piano). Bartok, Beethoven, Mozart (Thur) Palais des Beaux-Arts.

**Antwerp**

**Royal Flanders Philharmonic Orchestra** conducted by Pierre Bartholomee, Flemish and Dutch choral societies, soloists, perform Mahler's Symphony No 8 (Thur). Koningin Elisabethzaal.

**Utrecht**

**Netherlands Handel Society** and soloists conducted by Thijs Kramer. Haydn (Tue). (31 45 44).
**Netherlands Philharmonic** conducted by Ken-Ichiro Kobayashi, with Pavel Gililov (piano). Chopin, Rimsky-Korsakov (Thur) (31 45 44).

**Berlin**

**Berlin Philharmonic Orchestra** with pianist AndrasSchiff, conducted by Daniel Barenboim. Strauss (Tues, Wed). Philharmonie.

**Frankfurt**

**Dresden Staatskapelle** conducted by Hans Vonk with Jutta Zoff plays Wagner, Matthus and Bruckner (Mon). Alte Oper.

**Rome**

**The Second Viennese School** (1921). Hindemith's Das Marienleben with soprano Daniela Uccello and pianist Maria Carla Notarstefano (Tues). Galleria Nazionale d'Arte Moderna (6869938).

**Vienna**

**Copenhagen Philharmonic Orchestra** conducted by Philippe Entremont. Hornemann, Mozart, Tchaikovsky (Tues). Musikverein.
**Ensemble Kontrapunkte** conducted by Peter Keuschnig (Thur). Musikverein.

**Madrid**

**Teresa Berganza** (mezzo-soprano), J.A. Alvarez parejo (piano). Pergolesi, Rossini, Bizet, R. Strauss, Rodrigo (Tue). Auditorio Nacional de Musica (337 01 00).
**Lucia Popp** accompanied by Irwin Gage (piano), closing the Madrid Autumn Festival. Dvorak, Mahler, Wolf, R.Strauss (Wed). Auditorio Nacional de Musica (337 01 00).

**Barcelona**

**Orchestre de la Suisse Romande** conducted by Armin Jordan, Marta Argerich (piano). Meyer, Beethoven, Debussy (Thur). Palau de La Musica Catalana (301 11 04).

**New York**

**Manhattan String Quartet.** Shostakovich, Colgrass (world premiere), Ives (Mon). Town Hall (947 5850).
**New York Philharmonic** conducted by Zubin Mehta with New York Choral Artists directed by Joseph Flummerfelt. Schubert, Holst (Tue). Avery Fisher Hall (874 6770).
**Shura Cherkassky** piano recital. Handel, Weber, Chopin, Berg. (Tue). Carnegie Hall (247 7800).
**Olivier Charlier** violin recital with Akira Eguchi (piano). Schumann, Prokofiev, Lekeu (Tue). Kaufmann Hall (996 1100).
**Ellada Chakoyan** (soprano) recital with William Yanuzzi (piano) and Jayn Rosenfeld (flute). Mozart, Wolf, Verdi (Tue). Alice Tully Hall (874 6770).

**Washington**

**National Symphony Orchestra** conducted by Rafael Frühbeck de Burgos. Falla, R. Strauss (Thur) Kennedy Center Concert Hall (254 3600).

**Chicago**

**Chicago Symphony Orchestra** conducted by Kenneth Jean. Berlioz, Bizet, Fauré, Ravel (Thur). Orchestra Hall (435 6666).

**Tokyo**

**Renata Scotto** (soprano), **Alfred Kraus** (tenor). Opera arias and duets. Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Mon) (331 4461).
**Ivo Pogorelich** (piano). Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Tues) (293 1951).
**Montreal Symphony Orchestra**, conducted by Charles Dutoit, with Emmanuel Ax (piano). Mozart, Hindemith, Beethoven (Tues); Berlioz, Schubert, Stravinsky (Wed). Suntory Hall (505 1010).
**Traditional Japanese Music.** Buddhist Sutra Chanting. National Theatre (Thur).
**Japan Philharmonic Orchestra** conducted by Ervin Lukacs. Bartok, Tchaikovsky. Suntory Hall (Thur) 234 5911).

# Takács Quartet

**WIGMORE HALL**

If it is the mark of a first-rate string quartet that its members produce a sound that is entirely their own, then none deserves to qualify more surely than the Takács Quartet from Hungary. As soon as they start to play, any listener familiar with their work cannot fail to recognise the cultured warmth of the sound and marvel afresh at the wonderful balance of tone and expression that its members achieve.

The two recitals that the group is giving at the Wigmore Hall this month are not part of the Hungarian Festival "Magyarok," though they could only add to the picture of that country's general musical excellence.

In Saturday's recital, the first of the two, the quality of the musicianship was hard to fault. From the opening of Mozart's Dissonance Quartet, K.465, the playing was impeccably groomed with that subtle refinement of textures that is the group's special characteristic.

Just how easy it is to pinpoint their style became clear with the next item. Only last month the Lindsay Quartet was in this hall giving a complete cycle of the Beethoven quartets.

Their performance of the last quartet in F, Op.135, came as the summit at the end of a long, hard climb and it is difficult to imagine a view of the piece more diametrically opposite than the one offered by the Takács Quartet, as inward in manner as its predecessor had been strenuously outgoing.

Asked to choose one or the other, I would have to pick the Lindsay's account. That seemed the more satisfying at the time and strove more obviously to dig into the music's depths. One left it exhausted and elated.

But fortunately there is no need to pass up the opportunity of enjoying the very different approach that the Takács players bring to Beethoven, in which barely a phrase passes by without some marvellously expressive illumination of line or colour.

They ended with the Fifth Quartet of Bartók, in whose terrain of strange and other-worldly sounds they are entirely at home. There were wonderful things here, too.

If you want to hear what quartet playing is all about, listen to the leader, Gábor Takács-Nagy, when he lets a viola or cello line sing through and yet still keeps his own part pulsating with expressive power. The Takács Quartet's other Wigmore recital is next Saturday.

**Richard Fairman**

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# A role for the four powers

*IT WOULD BE a mistake* to think that the tumultuous events going on in Germany are only a matter for the Germans themselves. There is an international framework at hand, which allows for self-determination, and it *ought to be* invoked.

Some background may be in order. The re-unification of Germany has been a declared aim of the three Western powers – the United States, Britain and France – since the end of the Second World War. It has also sometimes been an aim of the other principal victor: the Soviet Union.

All four countries continue to have some responsibility for Berlin and Germany as a whole. In the early post-war years there was conference after conference to discuss the question. The disagreements then were not so much on the principle of re-unification, but rather on how it should come about and what form a re-united Germany should take: demilitarised, neutral or whatever. Very broadly speaking, the Western insistence was on free elections for all Germans; the Soviets were more interested in demilitarisation.

Until the building of the Berlin Wall in 1961, such conferences were a major part of East-West diplomacy. The Wall cut all that off, at least for a while, because it seemed that Soviet policy, implicitly accepted by the West, was that East Germany should be established as an independent state, although one heavily supervised by the Soviet Union.

### Modus vivendi

Gradually, this policy began *to work. There was a modus vivendi* between the Western Powers and Moscow, and between the two Germanys. In the late 1960s West Germany embarked on its Ostpolitik, a policy described by Mr Willy Brandt at the time as one of reducing the barriers by small steps and of accepting the existence of one German nation within two states.

There was progress both on the intra-German and the international level. It became possible for both Germanys to have embassies in the same third country and both took their seats at the United Nations. On the four power side, the quadripartite agreement on Berlin in 1971 was an outstanding example of international diplomacy. *Berlin* ceased to be a significant source of friction. At the same time, the agreement was in keeping with the general climate of East-West detente.

Since then, the process of detente has had its ups and downs. It was down for most of the late 1970s and early 1980s, and only climbed up again when Mr Mikhail Gorbachev came to power in the Soviet Union and the West recognised that there was somebody in Moscow with whom *it could* negotiate.

Even when detente was out of fashion, however, some progress was made. The Helsinki Final Act of 1974, signed by all European countries except Albania, plus the United States and Canada, established a basis for continuing talks on the future of Europe. What has become known as the Helsinki process remains very much in being.

### Parallel development

Yet the event that did not take place was the parallel development of the two German states. The Federal Republic continued to expand economically, while East Germany tended to stagnate. Moreover, successive East German governments have shown that they cannot take their people with them. There is thus a fundamental imbalance between the Germanys: one attracts people, the other drives them away or, until recently, sought to keep them in with the Wall.

After last week's events, it is hard to think that anything in the middle of Europe can be the same again. But it would *be equally mistaken to believe* that a new system can be put together by the Federal Republic and what is left of the East German state alone. Historically there are the four power responsibilites which are intended to tie Germany into the international community. None of these need to be carried out over the heads of the German people: the West Germans were intimately involved in the four power agreement on Berlin. There is also the wider framework of the Helsinki Final Act. The institutions needed to deal with the new situation exist; it is imperative that they should be used. That means some urgent East-West talking – along with the Germans.

# False starts in nuclear power

LAST WEEK the Thatcher Government sensibly decided not to include nuclear power in the privatisation of electricity. But the other part of the decision – *to abandon the family* of pressurised water reactor (PWR) stations planned to follow the one under construction at Sizewell in Suffolk – raises more questions than it answers. Has the Government given up its previous view that nuclear power, generating around 20 per cent of the country's electricity, is a necessary safeguard against the uncertain price and availability of fossil fuels? Do Ministers think that nuclear power will be uneconomic in the UK for the foreseeable future, or are there hopes of reviving it in the mid-1990s? These matters are of vital concern to the companies which serve the nuclear industry. They are also at the heart of the country's energy policy.

There is still a respectable strategic argument for nuclear power. Although oil and coal prices have not risen to the levels predicted at the time of the Sizewell inquiry in the early 1980s, fossil fuels are a depleting resource and prices *are bound to be volatile*. Moreover international action to counter the "greenhouse" effect may require restraints on the burning of fossil fuels. Even allowing for efforts to conserve energy and to exploit renewable sources, environmental concerns may force a greater reliance on nuclear power.

### Uncompetitive

It is hard to see how the UK can opt out of nuclear power unless its cost is out of all proportion to the benefits. On this point the Government's announcement is the latest in a calamitous series of false starts that has made nuclear power in the UK uncompetitive by international standards.

Excessive attachment to home-grown technology, coupled with engineering misjudgment, led to the choice of the advanced gas-cooled (AGR) reactor in 1965. *Even when* it became obvious that this was the wrong route to cheap and reliable nuclear power, nationalism and interest group lobbying kept the technology alive. It was not until 1977 that the Labour Government authorised design work on the PWR, which by then had established *itself throughout* the world. The French had reached the same decision a few years earlier and now have some 50 PWR stations in operation. The first and perhaps only British PWR station, at Sizewell, is due for completion in 1994.

### Small reactors

Sizewell will be very expensive because it is the first of its kind in the UK; it is also burdened by safety requirements well in excess of those accepted in other industrial countries. Since it cannot be the basis for a long run of stations, along French lines, in which costs are steadily reduced, logic suggests that Sizewell too should be *scrapped. If and when* a nuclear programme is revived in the mid-1990s or later, it may be based on new types of small reactor which are being developed in the US and elsewhere. The whole process of public inquiry, safety investigation and political dithering will then start all over again.

In the meantime, it is not surprising that a relaunched nuclear programme, on top of the legacy of the past, involves risks and costs which are unac*ceptable to private investors*; because the Government's nuclear commitment was strategic rather than commercial, this should have been recognised from the start. But it is not clear why the belated decision not to privatise has been linked to the cancellation of the PWR programme. Perhaps the pricing of power from the new PWR stations was seen as yet another complication that might make it harder to float the distribution companies.

Yet privatisation is not an end in itself. What matters is a sound, long term approach to meeting the country's energy needs. The Government has to consider what role a properly managed nuclear programme within the public sector might play, while at the same time rethinking the structure of a non-nuclear private sector electricity industry.

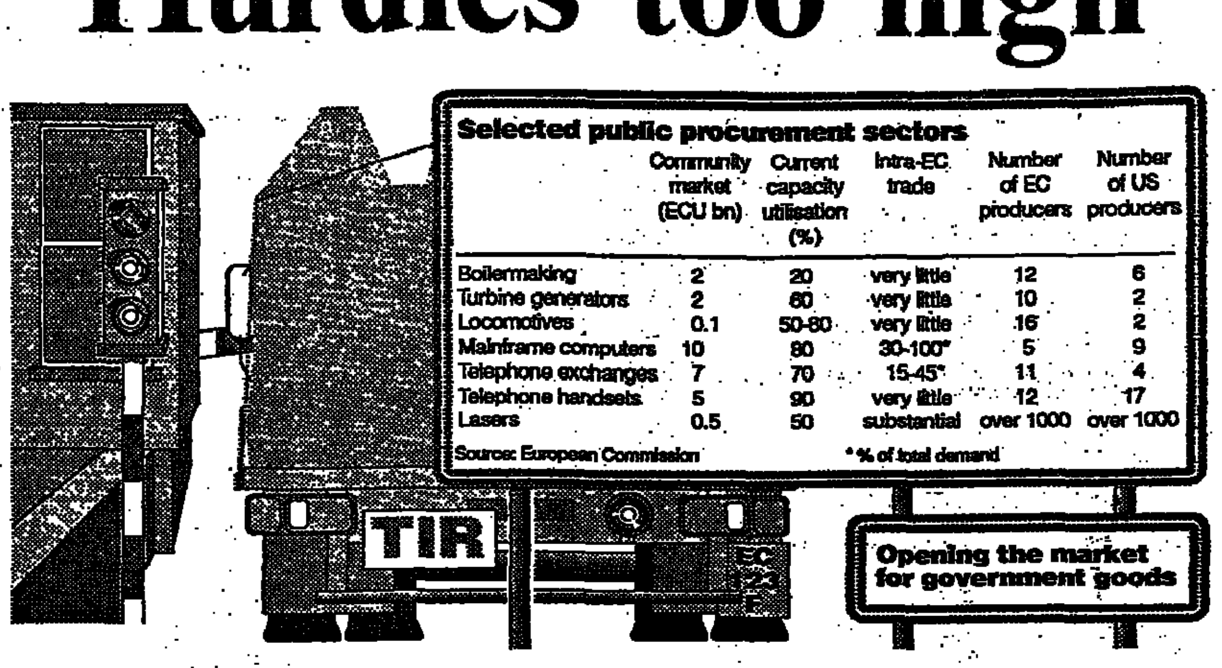
Guy de Jonquières reports on the national barriers to public procurement in Europe

# Hurdles too high

Of all the obstacles to a European single market, few have a broader economic impact than the widespread refusal by governments, utilities and monopoly industries to purchase from suppliers outside their own countries. And few internal trade barriers are proving as hard to budge.

At stake is a market valued at more than Ecu 400bn (£281bn) a year, or roughly 10 per cent of European Community economic output. It is a big – and sometimes the sole – source of demand for products ranging from turbine generators to telephone exchanges and has long been used by governments to promote "national champion" industries at the expense of foreign rivals.

1992 THE EUROPEAN MARKET




Selected public procurement sectors

| | Community market (ECU bn) | Current capacity utilisation (%) | Intra-EC trade | Number of EC producers | Number of US producers |
|---|---|---|---|---|---|
| Boilermaking | 2 | 20 | very little | 12 | 6 |
| Turbine generators | 2 | 60 | very little | 10 | 2 |
| Locomotives | 0.1 | 50-80 | very little | 16 | 2 |
| Mainframe computers | 10 | 80 | 30-100* | 5 | 9 |
| Telephone exchanges | 7 | 70 | 15-45* | 11 | 4 |
| Telephone handsets | 5 | 90 | very little | 12 | 17 |
| Lasers | 0.5 | 50 | substantial | over 1000 | over 1000 |

Source: European Commission  * % of total demand

Brussels has sought for almost 20 years to break this incestuous national favouritism. But until now, the results have been minimal. Fewer than five per cent of all central, regional and local public orders in the EC go to bidders from other countries, and many are awarded on a non-competitive, single tender basis.

With the 1992 deadline approaching, *the European Commission is taking* up the cudgels again. It has already scored some tactical victories. But complex political battles still lie ahead, and there is scepticism – even among the proposed reforms' supporters in industry – that they will do much good.

The Commission argues that existing practices damage both purchasers and suppliers. It estimates that in 1984, national barriers to public procurement cost the EC Ecu 14bn (£9.8bn), or 0.5 per cent of GDP. If defence procurement (which lies outside Brussels' jurisdiction) is included, the total is Ecu 18bn.

Purchasers suffer because they get limited choice and poor value for money, while producers are increasingly victims of their closed home markets, which have fragmented European industries narrowly along *national lines. As a consequence, in* businesses such as telecommunications and boiler-making, Europe has long suffered from excess capacity and a surfeit of small manufacturers lacking the scale economies available to their US and Japanese competitors.

The first shot in Brussels' new campaign has been to tighten up the EC's existing, and largely ineffectual, public procurement rules. A revised version of a 1977 directive covering equipment purchases came into force this year, and another, covering construction and civil engineering, will *take effect in the middle of next year.*

These directives extend EC legislation to include activities such as leasing, and aim to make contract procedures fairer and more transparent (see below). Another directive covering services – almost a third of all EC public procurement – is also in the works, though the Commission has yet to table formal proposals.

As well as fleshing out existing directives, two further important steps are planned. The first is tougher provisions for sanctions and enforcement, the biggest Achilles heel of earlier EC efforts at reform.

Procedures for taking offenders to the European Court are slow and cumbersome: a disputed contract may be well under way before the Court decides whether it is unlawful. To give its legislation more bite, the EC has agreed in principle on a proposed "remedies" directive, while the Commission is setting up its own enforcement unit.

Under the new rules, countries would set up their own systems to monitor compliance and review *infringements. They would have the* power to correct violations, to set aside unlawful decisions and to award damages, subject to judicial review. The Commission would also be entitled to require countries to explain or correct infringements within 21 days.

However, EC officials acknowledge that effective enforcement will depend vitally on aggrieved bidders blowing the whistle on illegal procurement practices. Many experts doubt how frequently, in practice, this will happen. They argue that fear of governments will deter producers from biting the hand that feeds them.

Brussels was, therefore, gratified earlier this year when Bouygues, a leading French construction group, protested about a large bridge contract in Denmark. Bouygues, which headed the losing consortium, complained that the contract terms broke EC law by specifying the use of Danish materials and labour.

Challenged by the Commission, Denmark admitted wrongdoing and agreed to allow the losing bidders to seek damages and recover their bidding costs through arbitration. Even though EC officials failed to get the contract suspended, as they had originally sought, they believe the episode will serve as a salutary lesson.

They hope that, as well as putting other public purchasers on guard, the case will embolden suppliers which have not bothered to bid for public *orders outside their own countries* because they feared the odds would be hopelessly stacked against them.

The second big step is to extend the new regime to the energy, telecommunications, transport and water industries – the *heartland of monopoly* purchasing and responsible for half of all EC public procurement. These "excluded" sectors have been exempted from EC rules until now because of the difficulty of devising a system to cover private as well as publicly-owned enterprises.

The Commission aims to square this circle by disregarding ownership. Instead, purchasers would be regulated if they operated a network (such as a power distribution system), if they were exposed to little or no competition, and if they enjoyed a "special or exclusive right" (such as a franchise or licence) from government. On those criteria, both privatised British Gas and state-owned Gaz de France would be covered.

This technically simple formula is, however, proving tricky to apply. Though all involved claim to support *the Commission's broad objectives*, its detailed proposals are caught up in a political tug-of-war between the often divergent interests of suppliers, purchasers and governments in different countries.

France, the current president of the Council, wants the proposals agreed this year. But a string of problems will have to be resolved first. They include:

- Coverage: Though the Commission plans to exempt some businesses (such as de-regulated bus services and the private supply of telecommunica*tions equipment), there are many bor*der-line cases where it is still struggling to make a decision.

Oil and gas are especially controversial sectors. With a particularly suspicious eye on the UK Offshore *Supply Office, the Commission wants* to include them, on the grounds that governments can use their power to award exploration and production licences to pressure energy companies into purchasing equipment from local suppliers. The companies argue that the burden of EC regulations would damage their competitiveness. The Commission may ease the rules if the companies agree to a number of, as yet unspecified, conditions.

Another widespread complaint is that business conditions in the four "excluded sectors" differ too much to be covered by a single directive. The Commission accepts there are many special cases and has proposed a review of the directive after four years. But it opposes splitting it into pieces.

- Thresholds: Many purchasers say the minimum contract size to be covered by the rules *is unrealistically* low; suppliers object that purchasing patterns and industry structures vary so widely between sectors and countries that a uniform threshold is unworkable. The Commission says any level of threshold has to be a compromise, and that a case-by-case approach is impractical.
- Third country treatment: Brussels' proposals would oblige purchasers to award contracts to EC suppliers if their prices were up to three per cent higher than equivalent bids from non-EC competitors. Purchasers could also *stipulate that half the value of* contracts be of Community origin.

France wants to stiffen these provisions further. Britain and West Germany oppose them, but may accept some milder form of EC preference as a lever to negotiate reciprocal agreements with third countries.

- Standards: Some purchasers and governments, *notably* Britain, are resisting Commission proposals for the mandatory use of common European standards where these have been developed.
- Enforcement: A separate mecha*nism is planned* for the "excluded" sectors. Britain and some other countries want an independent audit system to discipline offending purchasers, at least in the private sector.

Many other details also have still to be clarified, including the treatment *of in-house* procurement by large groups and of EC companies bidding for contracts outside the Community.

If all these issues can be settled, what are the chances of the rules having a real impact on purchasing patterns? Sceptics say old habits will prove stronger than new laws and that, at worst, the EC system will impose costly and bureaucratic regulations on purchasers, without stimulating any increase in trans-European competition by suppliers.

They point out that purchasers will still be entitled to restrict the number of bidders and to award *contracts by* negotiation rather than open competition. Some EC provisions are also ambiguous or imprecise, such as one which permits a bid to be selected over others on "aesthetic" grounds.

Furthermore, comprehensive European standards will take years to write and in some cases, such as railway track widths, may never be agreed. Faced with so many uncertainties, it is suggested, few companies are likely to bid aggressively for contracts outside their home markets.

Optimists concede most of these *arguments. But they insist* that all the EC is doing is opening doors, and that no legislation will be effective unless suppliers and purchasers really want to make it work. And here, Commission officials and some industrialists claim, real change is in the air.

Privatisation and deregulation have led utilities such as British Telecom to adopt more open, competitive procurement policies, while budgetary pressures are prompting many state-owned purchasers to demand better value for money and wider choice. For example, keen bidding has recently enabled German companies to win Italian *autostrada* construction work previously reserved for local firms.

Still more important, intense commercial pressures are forcing supplier industries to re-structure across borders through mergers and alliances. Sweden's Asea has merged with Brown Boveri of Switzerland to form Europe's largest power engineering group, while Britain's GEC has pooled its heavy engineering businesses with those of France's CGE-Alsthom and acquired Plessey in partnership with West Germany's Siemens.

As well as helping companies to rationalise capacity, such deals provide the local manufacturing, marketing and support presence which they consider essential to establish themselves in foreign markets. This changing structure may, in time, lead to *more efficient use of resources and* keener competition.

It is less clear, though, that it will lead to dramatic increases in procurement across borders, since many larger groups will probably bid for contracts through subsidiaries or joint ventures based in the purchaser's country. Hence Europe after 1992 may not be one completely integrated market in the sense that Britain, France or Germany are today. More likely, it will look like a cluster of more accessible national markets, linked together by the emerging *trans-national* structure of supplier industries.

*This series will continue on the Overseas page on Mondays*

## EC public procurement measures

**SUPPLIES AND WORKS:** Amended supplies directive in effect since January. Affects regional and local goods purchases exceeding Ecu 200,000 and central government contracts above Ecu 130,000. Amended works directive takes effect mid-1990, covering contracts exceeding Ecu 5m. Provisions of both directives include:

- Contracts may be let by open tender, by restricted competition between selected bidders or by negotiation with *individual suppliers*. Purchasers must be prepared to justify use of methods other than open tender.
- Contracts may be awarded on the basis of price or of the "most economically advantageous" bid, provided criteria are spelled out in advance and strictly adhered to.
- Procurement must be to European technical standards, where they exist, except in specified circumstances.
- Calls for tenders must be advertised in advance and decisions publicised. Longer time period required between invitations to tender and receipt of bids.

**REMEDIES:** Proposed directive requires member states to set up procedures to review disputed contract awards and, if necessary, nullify them. Empowers Commission to require explanations or corrections of infringements within 21 days.

**"EXCLUDED SECTORS":** Commission has proposed special regime for energy, water, transport and telecommunications. Provisions broadly similar to supplies and works directives, but would favour suppliers and tenders of EC origin.

**SERVICES:** Commission due to make proposals. *Likely to subject* services (eg, management and engineering consultancy) to varying degrees of regulatory stringency.

## Scotland has power

■ Although Lord Marshall is resigning from the chairmanship of the CEGB, Donald Miller, his opposite number at the South of Scotland Electricity Board, has no intention of standing down. But he does not hide his disappointment at last week's withdrawal of the advanced gas-cooled reactors from privatisation.

Miller has the distinction of running the best performing AGRs in Britain: the latest at Torness (opened in May by Margaret Thatcher) confounded sceptics by meeting its design output in record time. Nearly 60 per cent of Scotland's electricity is nuclear. "We believed we had devised a package that would have been acceptable to the City if the rug hadn't been pulled on us," Miller says. That happened because of "wild rumours about the costs of nuclear power, with figures that we didn't recognise. How could nuclear energy cost 9p per kilowatt hour? I still say it's comparable with coal". But once the City had decided that the mostly inefficient AGRs in England were unsaleable, the Scottish plants had to be pulled as well, he admits.

That is only the latest blow to befall this tenacious engineer in the political world of privatisation. First, he argued in vain for the two Scottish boards, the SSEB and the North of Scotland Hydro-Electric Board, to be floated under a single holding company. Instead, the Government decided to keep them separate and put the SSEB's nuclear stations into a company owned by both boards. Then it made the two boards exchange assets, leaving the NSHEB with a larger share of Scotland's generating capacity.

Keeping the nuclear plants in the state-owned Scottish Nuclear leaves the SSEB with not much more than some coal-fired stations, for which Miller has shown little love.

Will he stay with the SSEB, soon to become Scottish Power, or is he tempted to go with his nuclear stations in Scottish Nuclear? "I am chairman-designate of Scottish Power and that's what I'm going to do."

# OBSERVER

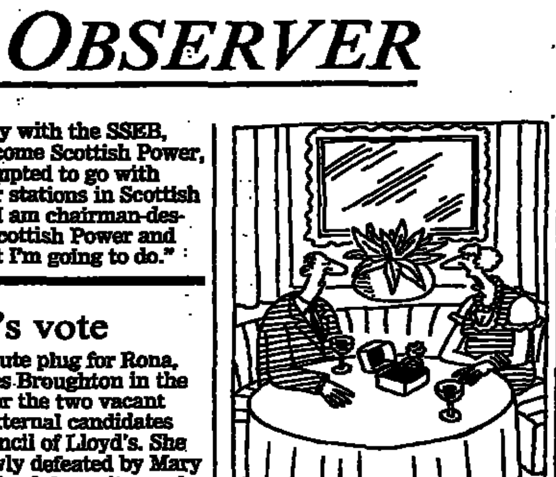
## Lloyd's vote

■ Last minute plug for Rona, Lady Delves Broughton in the elections for the two vacant seats for external candidates on the Council of Lloyd's. She was narrowly defeated by Mary Archer, wife of the writer and politician, last year, and has *actually written to members* to say that they cannot reasonably both complain about Lloyd's and at the same time play little part in its organisation. She points out that only 30 per cent of those eligible to vote for the Council bother to do so. The papers went out three weeks ago; the closing date for voting is Wednesday. Delves Broughton is against the starting of unnecessary new syndicates.

## Dwek mates

■ Maurice Dwek is an ambitious and prosperous man, but he was surprised to learn from newspapers (including the Financial Times) that he had pledged £9.25m to back Sir James Goldsmith's bid for BAT Industries. Dwek had been confused with his namesake, chairman of the Swiss-based investment bank, SG Warburg Soditic. One paper described the right Maurice, but published a picture of the wrong one.

Last year, at 49, London Maurice launched a new career at Seaforth Investments, an industrial investment company backed by MIM Britannia. Before that, he spent 27 years at Dwek Group, a mini-conglomerate which went private in 1988.




"It's lovely, Hans – but is a piece of the Berlin Wall really for ever?"

The two Maurices, who believe they are not related, have never met. Last year, both attended the same dinner at the Tate Gallery, but that ended up only as a close encounter.

The London Maurice may try again after a recent meeting with the Geneva Maurice's cousin and business partner, Moïse Dwek. Yet even knowing there are two Maurice Dweks does not guarantee they can be distinguished. When one returned our call, we began to explain our interest in the curious confusion of identities. He stopped us: "Yes, I know, we talked about that yesterday."

## Try a Trabant

■ This weekend's edition of the German Zeit Magazin has as its front cover picture and lead article "The Car of the Year": The Trabant – affectionately known both as the Trabi and as the Grey East-Mouse.

As Hans Klein, a West German government spokesman, said: *"The Trabi brought* thousands of people to freedom." And West Germans, known for their enthusiasm for driving high-horse-powered cars as fast and dangerously as possible along overcrowded autobahns, have taken the Trabi to their hearts.

Two were put on show in the Deutsche Museum in Munich and attracted such crowds of curious onlookers that when they were removed for a few days for checks in the workshop, the public demanded a third to fill the gap.

Trabi-jokes have replaced, at least temporarily, Skoda jokes. Zeit Magazin quotes two of the latest: there are no black Trabis, so you don't confuse *them with coal briquettes, and* the Trabi is the quietest car because you drive it with your knees in your ears.

## Filling the gap

■ Engineers digging the Channel tunnel may have had a feeling of déjà vu when the machine which has been tunneling inland from the Kent coast broke through the surface last week.

The event, which was shown live to millions of television viewers in south east England, was attended by Cecil Parkinson, the Transport Secretary, who spoke of watching history in the making.

In fact, history had already been made. The tunnel boring machine inadvertently dislodged part of the hill through which it had been digging and had emerged much earlier than planned, without television or the Secretary of State being present.

The contractors decided to treat it as a rehearsal and filled in the hole again for the cameras.

## Wheel power

■ Sign in the window of an East End bicycle shop: "Where there's a wheel, there's a way."

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هكذا من الأصل

## Hugh Carnegy examines the results of the Palestinian uprising

# No going back

Fireworks, flag-waving and demonstrations in the streets greeted its proclamation. Within days, 30 countries officially recognised it and the number now offering some kind of formal relations is more than 100.

The declaration in Algiers last November 15 by the Palestine National Council – the Palestinian parliament-in-exile – of an independent state in the Israeli-occupied lands of the West Bank and Gaza Strip was hailed as "a new dawn" by Mr Yassir Arafat, leader of the Palestine Liberation Organisation.

A year later, and nearly two years since the eruption of the *intifada*, the uprising which quickly became the new engine of the Palestinian cause, the reality in the occupied territories is a grim contrast to such euphoria.

Thousands of Israeli troops – with their armoured vehicles, automatic rifles, frequently lethal metal-filled "plastic" bullets and tear gas – still patrol the West Bank and Gaza. Recently, soldiers were issued orders to shoot masked demonstrators fleeing from them and there have been reports of plain-clothes army squads gunning down *intifada* activists.

The death toll since the uprising began in Gaza on December 9 1987 has risen to over 750 – more than 700 of them Palestinians, including 135 killed by fellow Arabs in a savage campaign against collaborators. Last month, at least 50 Palestinians were killed, including a three-year-old boy, in one of the highest monthly tolls so far.

Meanwhile, efforts – principally by the US and Egypt – to prod the PLO and Israel towards a settlement have yet to achieve a significant breakthrough, despite the PLO's watershed acceptance of Israel's right to exist and its renunciation of terrorism. The peace effort is alive, but its progress is tortuous, punctuated by frequent restatements by Mr Yitzhak Shamir, Israel's pugnacious Prime Minister, of his refusal to concede a Palestinian state.

Against this background, it is pertinent to ask what the *intifada* has changed and what is its future. For the Palestinians, the answer is that it has produced profound changes – not least giving added impetus to the peace process. And, while the future is unclear, the constant refrain is there can be no going back to the status quo.

This is partly acknowledged by the Israelis. For some time, the military establishment has accepted that the uprising will ultimately only be resolved through a political settlement and it is prepared for a long period of attrition in the territories until that happens. Mr Yitzhak Rabin, the Labour Party Defence Minister who has been responsible for handling the *intifada* from the start, often says military might alone will not squeeze political aspirations out of the Palestinians.

At the same time, the Israeli Defence Force – the IDF – feels it has largely succeeded in suppressing the worst of the street violence of the early days. Mr Rabin said recently the revolt had broad popular support among the territories' 1.7m people, but was based on only about 8,000 activists. The strategy now is to bear down on them uncompromisingly, in street clashes and through arrests, with the intention of containing the violence and driving a wedge between the perceived activists and the broader population.

This may overestimate that gap. Probably the most significant effect on the ground has been the way the uprising, which flared throughout the occupied territories after four Palestinians were run over by an Israeli truck in Gaza's Jabalya refugee camp, has transformed political attitudes in the West Bank and Gaza. Most Palestinians concede that during the previous 20 years of Israeli rule, many people paid little attention to the occupation. Inured, perhaps, by centuries of foreign rule in the region, most got on with life as best they could, keeping out of trouble. All that has changed completely.

"Before the *intifada*, the PLO worked hard to teach Palestinians what was going on, through workers' unions, student groups and so on," says Mohammed Awwad, a member of a local "popular committee" in Jabalya. "It was very slow. But after the *intifada*, people began doing these things for themselves. Children asked their parents what was going on."

Youngsters were the driving force of the uprising from the start, their scruffy, stone-throwing defiance of well-armed Israeli soldiers quickly becoming the symbol of the revolt. The authorities' "iron fist" response, in which thousands were arrested and beaten, cemented the spread of political awareness and resistance among the Palestinians. According to Mr Rabin, 40,000 Palestinians have been jailed for some period during the uprising. Prison is almost universally described by its victims as a "university" where they are schooled in how to conduct the *intifada* by fellow inmates.

"Sami," another popular committee activist in Gaza arrested in a random swoop, said: "Before the *intifada* I paid no attention at all to something called politics . . . but I graduated from prison a new person . . . . the Israelis' biggest mistake was to make random arrests from all the Gaza and West Bank camps. We were recruited inside the prison and we were released prepared to fight."

The political structures spawned by the *intifada* have inevitably been loose and diverse, given the relentless detention of activists by the Israelis and the many PLO and other factions involved. But a clandestine and complex network of popular committees has evolved. These are the local bedrock of the revolt; they command a high level of obedience by their communities.

These committees see themselves as constituting a kind of provisional administration. They attempt to provide welfare support to their communities – for example disbursing PLO funds to the families of *intifada* victims – as well as political guidance. They also impose an often brutal system of justice, dispatching so-called "strike forces" to beat or kill alleged collaborators or other "criminal elements."

Above the popular committees is the "unified leadership," also a loose and changing group representing a cross-section of factions drawn from local leaderships. It agrees and issues the regular leaflets giving a lead to the uprising by proclaiming strategy and naming strike days and other actions.

This amorphous system has inevitably led to some factional disputes and local deviations from the supposedly "national" line. But Palestinians also say the *intifada's* strength lies in the lack of rigidity and emphasis on local underground initiative. For example, they say attempts to break up the system by arrests have been thwarted by the ability of committees swiftly to substitute detained members.

For the Palestinians, the achievements of the *intifada* are seen in terms of having irreversibly asserted their political identity and their rejection of occupation. Above all, they feel they have forced the Palestinian issue into the international public eye, winning unprecedented sympathy matched by an equal blackening of Israel's image.

But, after two years of open revolt, there is a realisation that the goal of an independent Palestinian state is still a long way off. "We became realists," said Abdul Khader, a militant young activist in Jericho, in the West Bank. "We have no option but to continue the *intifada*. Time is not so important now as it seemed at the beginning. Now the central part of our thinking is how to achieve our goals, not when."

Judging simply by the sustained casualty figures, it seems fair to conclude that the uprising will continue until there is some political breakthrough. But it is not clear whether it can be increased in intensity.

Over the months, the character of the violence has changed from mass demonstrations to smaller, though often more intense, clashes. There remains widespread resistance to calls for a resort to arms. After already suffering hefty declines in income, Palestinians would be more hurt than Israel by further disengagement from the Israeli economy through more work and consumer boycotts. Civil disobedience campaigns such as the recent tax boycott in the West Bank town of Beit Sahour would probably capture more valuable media attention, but would also exact a big economic price. It cost Beit Sahour residents more than $1m in goods confiscated by the Israeli authorities as a retaliatory measure.

The reality is probably that the *intifada* on its own cannot achieve Palestinian aims. Hopes that the conciliatory position adopted by the PLO last year, and the subsequent PLO-US dialogue, would force changes on Israel have so far been frustrated. There is a strong feeling of resentment that the US, still seen by most Palestinians as the key to unlocking Israeli concessions, has not delivered. The outlook for the Palestinians is not enhanced by the fact that *intifada* has this year slipped well down the list of burning international issues.

"Certainly we cannot see ourselves making any further concessions," said Dr Haydar Abdi Ashafi, 71-year-old head of the Gaza Red Crescent Society and long-standing leftist. "For the time being it's my feeling we will continue with the same thing – the *intifada* – at this level, waiting for the world to be faithful to the principles it has avowed."

## *LOMBARD*

# Why evolution is a better route to Emu

**By Samuel Brittan**

EUROPEAN COMMUNITY Finance Ministers who meet today in Brussels to discuss the path to monetary union will have before them a British Treasury Paper, An Evolutionary approach to Economic and Monetary Union.

The President of the Bundesbank, Karl Otto Pöhl, has at last agreed that it is superior to the rigid and centralised institutional approach of the Delors Committee's second and third stages. The British proposals have suffered most from the know-nothing brigade in the British Parliament and press, and I was sad to see John Smith, the Shadow Chancellor, among them.

The sneerers interpret competitive currencies to mean that an Aberdeen grocer would have to accept payments for peanuts in Greek drachmas. They do not realise that currency choice is permissive, not compulsory. The obstacles which exist in some countries to contracts in non-national currencies would be removed. The rest would be up to the parties concerned. The scoffers never seem to have visited border areas like Geneva or Salzburg where payments can now be made in alternative monies.

The right to carry out financial transactions in the currency of one's choice is already inherent in the Single Market and Stage One of Delors, both of which Mr Smith says he accepts. The Treasury wants to go further in removing restrictions; but the strength of its paper lies in its basic analysis. The conclusion is that the completion of the single market and single financial area, with the inclusion of all currencies in the Exchange Rate Mechanism, will itself lead to monetary union by a process of convergence on price and exchange rate stability.

"Realignments would become rarer, fluctuations within the bands smaller, and the EMS would evolve into a system of more or less fixed exchange rates. Concurrently with minimum exchange rate uncertainty and reduced costs of switching between currencies, all Community currencies would become effectively interchangeable. A practical monetary union would be achieved."

By contrast: "deciding now that monetary union has to have a single currency precludes debate and removes any role for the market in favour of a central plan. Moreover, by eliminating both competition and accountability from members' monetary policies, the Delors version risks producing a higher inflation rate in Europe – one in which performance approximates more to the average than to the best." More bluntly, the proposed European central bank might not be as anti-inflationary as the Bundesbank which sets the pace in the present EMS.

**It is like a perceptive dissertation on the rules of a club by an outsider**

On the other hand, if we proceed by developing rather than replacing the EMS, members will find that devaluation damages credibility and that countries suffering from a devaluation threat have to tighten policies more quickly than those countries faced with upward pressure.

Nevertheless the Treasury paper suffers from having been put together in a rush. Because earlier academic advocates of currency competition had in mind rivalry between purely floating currencies, it was not at first appreciated (even in all the British official world) that Nigel Lawson had in mind competition with currencies linked under EMS rules – a notion which his successor John Major has fully accepted, saying that the question about full EMS membership is "when rather than whether."

There are also outstanding omissions in the Treasury document, which says nothing about legal tender laws. The Treasury Paper does not fully explore the implications of greater substitutability between one currency and another. For many of the most important effects of policy changes by one central bank will leak out into the territories of others. As that happens, the need for a common monetary policy – and not just consultation – will arise. Thus even the evolutionary route is likely to lead to the need for common institutions. And where currencies really are very good substitutes for each other a common unit could be allowed to emerge at least for large transactions, leaving the local taverna owner to use the domestic money with which he has always been familiar (I have explained all this more fully in Europe Without Currency Barriers*).

There is a more central doubt. The whole Treasury paper is a clear exposition of how, in the words of the penultimate sentence, "the EMS could evolve into a system of fixed exchange rates." Yet someone from on high has spoiled it all by writing in at the very end, "But that cannot and should not be decided now." This calls in question British bona fides. For the minimum definition of monetary union is an area of permanently fixed exchange rates, with no institutional obstacles to movement of capital or circulation of currencies. There is an even more basic reason for mistrust. The Treasury Paper is about the evolution of the EMS, of which Britain is after ten and a half years not yet a full member. It is like a perceptive dissertation on the rules of a club by an outsider who has not even done the club the favour of saying when he might join.

It would be a tragedy, if all-too-understandable pique over the Thatcher Government's behaviour were to cause European leaders to reject the Treasury's sensible alternative to aspects of Delors. Is it too much to hope that they will be statesman-like enough all the same to ignore provocation and look at the proposals with an open mind?

**Available from Lord Kilmarnock, The Social Market Foundation, House of Lords, London, SW1. Tel 219 3124*

## *LETTERS*

### Constraint not balance of payments, but supply side

*From Mr Geoffrey Dicks.*

Sir, I am flattered that Wynne Godley should wish to comment on our latest forecast and that you should wish to publish his views (Letters, November 9). Prof Godley has doubts about our medium-term forecast; I have doubts about his analysis. He argues that our forecast of 2 per cent GDP growth over the next four years is inconsistent with an improvement in the current account because 2 per cent growth over the last 10 years has coincided with an increase in the deficit.

Coincidence is the appropriate word. It reveals that Prof Godley's thinking is stuck in the "balance-of-payments-as-a-constraint" mould – in other words, that growth can only be as fast as the balance of payments permits. This may have been appropriate in the post-war period. Never the less, it has long been recognised that the true constraint is not centred on the balance of payments but on the supply side: growth can only be as fast as supply permits. The may be a tautology, but it is far more valid than Prof Godley's proposition.

Seen in this light, the current account deficit is not the product of of any specific rate of growth, but the imbalance between domestic supply and demand. Of course, in the short run demand may be a prime determinant of supply – an 8 per cent increase in domestic demand in 1988 gave rise to an above average 5 per cent rise in output while still producing a 3 per cent increase in the current account deficit (measured as a per cent of GDP). But supply is surely determined by more fundamental factors over the medium run.

*It follows that our projection* of the the current account in 1990 and beyond reflects the forecast balance of demand and supply. Demand is expected to slow down sharply next year as consumers respond to very high interest rates and industry runs down its stocks. Exports are boosted by a lower pound and buoyant European demand. Thus the forecast rise in output is considerably greater than that of demand and there is a one-time reduction in the current deficit. In later years, domestic demand is stronger as policy is relaxed ahead of the next election – hence the demand-supply balance is less favourable and the current deficit is stable.

Where we would agree with Prof. Godley is in describing this outlook as "miserable." Output growth is below that of recent years and also below our estimates of productive potential. It is the price we have to pay to rectify the imbalances of 1988. But suppose we are wrong – not next year as Prof Godley suggests – but in the medium term. What if output rises more rapidly, say at its potential rate of 3 per cent? Disaster, according to Prof Godley.

This is not so. Providing domestic demand is held on a tight rein, the extra output can be devoted to the balance of payments. It is this insight which demonstrates the fallacy in Prof Godley's argument. The idea that there is a simple relationship between output growth and the current account in the medium run is without substance. The current account is merely the difference between demand and supply and it is this imbalance which has to be rectified if the current deficit is to be eliminated.

Geoffrey Dicks,
*London Business School,*
*Sussex Place,*
*Regent's Park, NW1*

### International telecoms

*From Mr Peter Smith.*

Sir, Your leader "Red tape and telephones" (November 7) was timely and helpful, and users will strongly endorse your comments on the stalemate in which the advance of telecom liberalisation in Europe now finds itself.

You are less than fair, however, in stating that users have been lazy about making their views known. The telecom user group *Association Française des Utilisateurs du Telephone et des Télécommunications* (AFUTT) has been working hard for a long time.

A telecom user group – AUTEL – was formed in Spain last year, and another – ANUIT – in Italy this year. These new organisations should take heart from the experience of the UK, where liberalisation was brought about entirely by user pressure. All other interests – the Post Office, the unions and large manufacturers – were against it.

In the European Community, several user groups, including the International Telecommunications Users Group (INTUG), have vigorously supported the Commission's efforts to achieve an open and competitive telecommunications market.

INTUG shares your view that the Commission has given a strong lead in the right direction, and that this has been challenged by the forces of reaction in the shape of ministers who listen too much to their respective national Posts, Telephones and Telegraph organisations (PTTs) and trade unions, and not enough to businessmen.

Some PTTs are trying to influence the directives on open network provision to make them less liberal than the Green Paper from which they derive, and which has already been adopted by the Council of Ministers. Users are excluded from the meetings where the directives are drafted, and although lip-service is paid to user consultation there is clear evidence that users views are ignored.

Users are confident that international competitive pressures eventually will free telecom traffic from unnecessary restriction. Those countries which resist this natural trend longest will handicap their own commerce and postpone the benefits of the Common Market for others. Meanwhile, some users at least will continue to press for the liberalisation of telecoms in the best interests of all.

Peter Smith,
*INTUG,*
*18 Westminster Palace Gardens,*
*Artillery Row, SW1*

### Unified Business Rate

*From Mr Henry Law.*

Sir, Criticism of the new Unified Business Rate (UBR) by the Confederation of British Industry and others seems to be wide of the mark. As a property tax, the UBR is based on rental values. Rents reflect geographical advantage and disadvantage. Thus, the UBR will be related both to ability to pay and to benefits received from the community at large in the way of infrastructure.

In the long term, property taxes are passed backwards to landlords. When rents are negotiated, the tenant's main consideration is the total cost of occupation. Three years notice has been given of the UBR, and market forces should by now have ensured that allowances are made for outgoings such as rates.

If this has not happened, the real blame must lie with upwards-only rent revision clauses which fail to allow for falls in market rentals. These clauses ought to be declared illegal. At the very least, the Government could have made provision to set aside upwards-only clauses to enable tenants to negotiate lower rents to take account of any higher rates. No doubt, where the UBR results in lower charges, rents will adjust upwards quickly enough.

If the UBR is causing difficulties for owner-occupiers, they have only themselves to blame; their problems come from the sloppy accounting practice which counts imputed rental income as "profits." Their businesses then appear to be healthier than they really are. Many companies which seem to be making profits would not be viable if current market rents had to be paid for the premises occupied. By distinguishing between profits and imputed rental income, at current market values, the firms would have set themselves realistic targets and would not have been so vulnerable to an increase in rates.

If agricultural property had been brought into the UBR net, it would have spread the burden on business as a whole.

It is also important to recognise that the UBR acts as a disincentive to enterprise: higher rates are payable on a modern, well-equipped factory than on an outdated one. If the premises are vacant, no rates at all are charged, while vacant industrial land is deemed to have no value. This is hardly an inducement to develop and modernise. Property taxes should be assessed on the value of land alone, ignoring buildings and improvements.

Henry Law,
*19 Queen's Gardens,*
*Brighton*


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FINANCIAL TIMES
Monday November 13 1989

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Janet Bush on Wall Street

# The virus which has taken hold

There was a strange and ominous market event on April 19 1984.

It was a predictably quiet Good Friday's eve. On the Chicago Board Options Exchange, traders were comfortably positioned for the expiration of index options on the S & P 100. A lot of market makers had shorted April 155 call options.

Then, suddenly, shortly before the options were due to expire, huge (by standards of the time) block buy orders flooded on to the New York Stock Exchange for many of the shares in the S & P 100.

The S & P 100 jumped, pushing up the value of the April 155 call options. Those market makers who had been short lost a great deal of money and the NYSE and CBOE launched an investigation into this explosive virus which had unsettled normal market behaviour.

The suspicion was that somebody had been long April 155 call options and bought the S & P 100 stocks to inflate their value before expiration.

Their investigations led to a small, securities firm based in unassuming offices on Madison Avenue near Grand Central Station called Miller Tabak Hirsch & Co.

Once the dust had cleared, the true story was told. MTH was not active in call options late on April 19. In fact the firm was reversing a position in which it was long futures and short the cash stock market. It entered orders worth around $100m to buy S & P 100 shares and sell futures contracts.

This was the first time what was later to be called programme trading burst upon market consciousness.

During the investigations and endless publicity, the rest of Wall Street cottoned on to what MTH had been doing and the explosive use of programmes had begun. Now, $700m in programme trades would constitute an average day.

Mr Jeffrey Tabak of MTH, who served on the Brady Commission, set up to study the causes of the 1987 stock market crash, says a profitable little monopoly was then broken up. He estimates that the spread between the futures and cash markets was about two to three times what it is now.

MTH still does some arbitrage but has not executed the strategy on its own account for some time and uses it strictly for customers as only one of a variety of trading techniques using futures and options.

If anything, he believes institutions are more interested than ever in using this strategy. They see it as relatively risk-free and an interesting alternative use of cash.

One of MTH's new business thrusts is a service called "index enhancement." Using an array of strategies using options and futures, it promises institutional clients who passively invest based on a major stock index to boost their rate of return by an average of 200 basis points.

Where does Mr Tabak stand on the debate on stock index arbitrage which has split Wall Street? The answer is, somewhere in the middle.

He does not subscribe to the histrionic view, put repeatedly last week when various leading figures urged a ban on programme trading or at least power for the Securities and Exchange Commission to halt programmes if it deems necessary.

"You cannot outlaw programme trading because you will wind up with a fragmented market which will trade in a different place," he said. Programme trading is so popular for a single, blindingly obvious reason: clients want it.

He does not approve of suggestions that margins should be raised on arbitrage because there is a direct relationship between higher margins and lower liquidity. "If margins were raised, you would simply drive the entrepreneur out of the Chicago pits and liquidity would dry up," he said.

Neither does he entirely approve of unfettered proprietary index arbitrage by the big Wall Street players who have shown no signs of giving it up at the NYSE's behest.

He prefers further experimentation with circuit breakers and better co-ordination between Chicago and New York.

He takes issue with the fact that the NYSE trading halts only apply when the market is falling.

"This is not logical," he said. "The New York Stock Exchange is saying that it is un-American to sell. It is like the Japanese Minister of Finance going into the market and telling people it is a good idea to buy stocks today."

MOLDAVIAN UPHEAVAL

# Soviet troops called in to quell riots

By Quentin Peel in Moscow

SOVIET authorities have declared a virtual state of emergency in the south-west republic of Moldavia, after unprecedented nationalist demonstrations led to riots in the streets and the republic's Interior Ministry headquarters being set alight.

Two thousand extra Soviet troops were flown into Kishinev, the Moldavian capital, at the weekend to stop further unrest, Tass, the Soviet news agency, reported yesterday.

They arrived after riots for the second time in a week left more than 270 soldiers, police and civilians injured, following a pitched battle outside the Interior Ministry.

Another mass nationalist rally was cancelled yesterday after a television appeal from Ion Hadyrka, leader of the unofficial Moldavian Popular Front, which is demanding the resignation of the entire Communist Party leadership and the republic's government.

The authorities have banned all further demonstrations, forbidden the sale of alcohol and ordered an 8 pm curfew on all minors. An emergency commission has been set up to control the situation.

The riots on Friday night and Saturday morning occurred when crowds estimated at up to 20,000 gathered outside the Interior Ministry to demand the release of 20 demonstrators who helped to force the cancellation of the October Revolution military parade in the city last Tuesday.

On Friday night, the crowds barricaded the streets with scaffolding, set a police car on fire and bombarded troops with stones, petrol bombs and blazing torches. The ministry was set alight from two sides, according to Tass.

Attempts to disperse the crowds with water cannon and rubber truncheons failed and eventually the troops fired warning shots and teargas.

Major-General Yevgeny Nechayev, deputy head of the Soviet Interior Ministry's political department, said 142 of his troops were injured, with 36 still in hospital, four in serious condition. Ninety-one police and 40 civilians were reported wounded.

Mr Semyon Grossu, the veteran Communist Party leader in the republic, denounced some members of the Popular Front for "joining in open struggle to topple the legitimate government."

Leaders of the Front countered with a charge that Friday night's riot was provoked by the authorities – and repeated their call for Mr Grossu and Mr Ivan Kalin, the head of the republican government, to resign, with the rest of the Communist Party leadership.

The nationalist unrest in Moldavia, which borders Romania, comes amid a rash of fresh signs that Moscow's control over its turbulent non-Russian republics is slipping.

Stormy meetings last week in the disputed territory of Nagorno-Karabakh, where the neighbouring republics of Armenia and Azerbaijan are fighting for control, saw the local population reject a Moscow-inspired peace plan.

A debate on the dispute is due in Moscow's Supreme Soviet today.

Mr Mikhail Gorbachev, the Soviet leader, chaired a meeting on Friday of the presidium of the Supreme Soviet, which denounced Azerbaijan and the Baltic republics of Estonia, Latvia and Lithuania for passing legislation in conflict with the Soviet constitution.

On Saturday, the Latvian parliament responded by passing a counter-resolution defending its laws, approving an appeal to Moscow to abandon the compulsory call-up system and amending its own constitution to prepare for "alternative service" to conscription.

Both Estonia and Latvia continue to press ahead with election laws which impose residence requirements on voters – one of the main items which Moscow claims defies the national constitution.

# Fight for control of LVMH goes to court

By George Graham in Paris

THE increasingly acrimonious battle for control of LVMH, the French drinks and luxury goods group, comes to a head this week in the Paris law courts amid allegations of fraud and efforts to remove Mr Henry Racamier, leader of the Vuitton family shareholders, from his positions with the group.

Mr Bernard Arnault, chairman of LVMH since January, and Mr Henry Racamier, controller of the significant Vuitton family shareholding block in LVMH, have been embroiled for months in a series of legal arguments.

This morning, the Paris commercial court is due to decide on a suit of Mr Racamier's seeking to have a shareholders' meeting of Louis Vuitton, the group's luggage subsidiary, delayed once again.

If the meeting were to go ahead on Thursday, as scheduled, it appears certain that Mr Arnault, who will control 98 per cent of the votes in his capacity as chairman of LVMH, will use the opportunity to dismiss his rival from the chairmanship of Louis Vuitton.

Tomorrow, the LVMH supervisory board is due to meet and is expected to strip Mr Racamier of his group level titles of executive vice chairman and managing director.

And next Monday, on the other hand, the court will hear a suit asking for a considerable portion of the LVMH shares held by Mr Arnault in partnership with the UK drinks group Guinness to be cancelled.

The shares stem from an issue of bonds with warrants which the appeals court has already ruled to have been irregularly carried out, but which it has refused to cancel.

The battle took a more venomous turn on Friday when a minority shareholder in Louis Vuitton filed suit accusing Mr Racamier of fraud in his management of the company.

The suit alleges that Louis Vuitton improperly paid FFr24.5m ($3.9m) in fees between 1986 and 1988 to Vuitton Investissement Gestion (VIG), the Vuitton family holding company through which its shares in LVMH are held.

Contacted by telephone on Saturday, Mr Racamier dismissed the suit as a "below stairs manoeuvre".

Mr Racamier said that the fees charged by VIG related to accounting, computer and treasury services carried out by a number of employees of VIG who work exclusively for Louis Vuitton.

# UK retailers report slowdown in sales

By Simon Holberton, Economics Staff, in London

FURTHER SIGNS that Britain's high interest rates have knocked retail confidence came yesterday in a survey which showed sales down last month and expectations of future sales well below a year ago.

The survey comes at the beginning of a week in which Mr John Major, the Chancellor of the Exchequer, will deliver an annual economic statement containing the Treasury's latest forecast for the British economy. It expects growth to be the slowest since 1982 at 2 per cent or below.

The Treasury will raise its estimate of Britain's current account deficit this year to £20bn from £14.5bn and show inflation at 7 per cent or more, much higher than the 5½ per cent forecast in March last year in the budget of Mr Nigel Lawson, the former Chancellor. It forecasts some improvement in both indicators next year with the current account deficit down to about £15bn and inflation to about 5 per cent.

Meanwhile, the Confederation of British Industry/Financial Times distributive trades survey suggests that retail sales volume fell last month compared with September and that retailers are much less optimistic about sales before Christmas than a year ago.

Retailers' expectations will be measurable against the first official estimate of growth in retail sales volume when the Central Statistical Office releases October data this morning. Markets and analysts expect sales volume to have risen by 0.4 per cent last month.

Mr Nigel Whittaker, chairman of the CBI's distributive trades survey panel, said: "The results show a further slowdown in sales growth in October as the squeeze on consumer demand continues. The growth in retail sales is now running at a much slower rate, compared with last October, when higher mortgage rates first started to bite."

He suggested that the slow growth in retail sales would have a knock-on effect on the rest of the economy as retailers were placing fewer orders with distributors.

The Bank of England noted in its recent assessment of the economy that spending on household goods was depressed. This is borne out in the survey results which show that sellers in the sector had lower sales last month than a year ago.

Details, Page 14

# Pressure for election timetable

Continued from Page 1

local party apparatus in the industrial centre of Magdeburg.

The removal of Mr Eberlein – a reform-minded Communist who was appointed to the Politburo last Wednesday – is a fresh sign of grassroots revolt.

Party meetings throughout the country are exposing the leadership to the full wrath of middle and lower-ranking officials and members. Party members wearing the SED emblem were being "insulted and abused," reported Berliner Zeitung, the East Berlin party newspaper.

Demands for free elections from several million opposition sympathisers in the past month are now coming from the communists as well. Mr Günter Schabowski, the East Berlin party leader, has expressed support for free elections but agreement has not yet been voiced by Mr Krenz.

Meanwhile, the past three months' mass exodus of East German citizens has been eased but not stopped by the opening of the borders.

Out of the millions of East Germans who have travelled to the West in the last three days, only a relatively small proportion are thought to have applied to stay permanently in West Berlin and the Federal Republic. Some recent emigrés are reported to have returned.

Events in East Germany have unleashed unusually sharp bickering between West Germany's two main parties – the Christian Democrats and Social Democrats (SPD).

Mr Kohl accused the SPD of stirring up resentment against East German immigrants and he has refused to countenance a meeting of all political parties.

Leading Social Democrats have in their turn accused Mr Kohl of being incapable of rising to the historic times.

West German public spending is already likely to be several billion D-Marks higher this year because of the higher-than-expected wave of East German immigrants.

Mr Kohl stressed yesterday that the special costs created by immigrants would not require any special taxes on the West German people. Some politicians have suggested a special solidarity tax to pay for the integration of East Germans and to help finance economic transformation in East Germany.

Ralph Atkins in London writes: Prime Minister Margaret Thatcher is today expected to call for a period of calm before East Germany's future is reassessed following the weekend's developments.

Walter Momper, Mayor of West Berlin (left) shakes hands with Erhard Krack, his counterpart in East Berlin

# Peace punches the Wall

Continued from Page 1

of the two Germanys – BRD-DDR – merging into one.

But amid the rapture was foreboding. One worried-looking East Berliner returning home said the lack of convertibility of the East German currency was "the biggest problem." One Dresdener said that fellow returnees to East Germany's drabness and shortages after seeing the over-flowing West Berlin shops would give the leadership "its biggest shock yet."

Unprecedented in the normally dour former capital of Prussia, the frenzy which started before the weekend continued unabated yesterday. Even West Germany's normally strict shop closing hours were thrust aside. All day yesterday, the East Berlin visitors queued for their DM100 ($54) statutory welcome money from banks and post offices. Since Thursday, DM43.5m in government funds has been handed out to East German visitors in West Berlin alone.

Not to be outdone, three lone demonstrators from South Korea held up a placard pruncing "One Korea," They declared, "First Germany – Korea next."

## WORLD WEATHER

| | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ajaccio | S | 18 | 64 | Dubrovnik | S | 17 | 63 | Malta | S | 18 | 64 | Rhodes | F | 19 | 66 |
| Algiers | S | 24 | 75 | Edinburgh | C | 7 | 45 | Manchester | S | 15 | 59 | Rio de J'o | C | 30 | 86 |
| Amsterdam | S | 11 | 52 | Faro | C | 20 | 68 | Manila | F | 33 | 91 | Rome | S | 15 | 59 |
| Athens | F | 17 | 63 | Florence | S | 15 | 59 | Melbourne | C | 16 | 61 | Salzburg | C | 2 | 36 |
| Bahrain | C | 27 | 81 | Frankfurt | S | 9 | 48 | Mexico City | C | 19 | 66 | San Francisco | C | 11 | 52 |
| Bangkok | F | 32 | 90 | Funchal | C | 16 | 61 | Miami | S | 21 | 70 | Seoul | R | 9 | 48 |
| Barcelona | F | 19 | 66 | Geneva | C | 5 | 41 | Milan | Fg | 5 | 41 | Singapore | – | – | – |
| Beirut | – | – | – | Gibraltar | C | 18 | 64 | Montreal | F | 1 | 34 | Stockholm | C | 11 | 52 |
| Belfast | C | 8 | 46 | Glasgow | R | 7 | 45 | Moscow | C | 4 | 39 | Strasbourg | Fg | 3 | 37 |
| Belgrade | C | 7 | 45 | Guernsey | S | 14 | 57 | Munich | C | 1 | 34 | Sydney | R | 15 | 59 |
| Berlin | C | 4 | 39 | Helsinki | C | 9 | 48 | Nairobi | F | 26 | 79 | Taipei | F | 28 | 82 |
| Biarritz | S | 22 | 72 | H. Kong | S | 26 | 79 | Naples | S | 16 | 61 | Tangier | S | 23 | 73 |
| Bombay | S | 34 | 93 | Innsbruck | S | 9 | 48 | Nassau | | 29 | 84 | Tel Aviv | F | 22 | 72 |
| Bordeaux | S | 19 | 66 | Inverness | C | 6 | 43 | New Delhi | S | 29 | 84 | Tenerife | F | 23 | 73 |
| Brussels | S | 12 | 54 | Islamabad | [illegible] | [illegible] | [illegible] | New York | S | 12 | 54 | Tokyo | F | 20 | 68 |
| Budapest | S | 9 | 48 | Istanbul | F | 11 | 52 | Nice | S | 17 | 63 | Toronto | S | 0 | 32 |
| B. Aires | R | 23 | 73 | Jakarta | C | 32 | 90 | Nicosia | F | 21 | 70 | Tunis | F | 20 | 68 |
| Cairo | F | 24 | 75 | Jersey | S | 15 | 59 | Oporto | R | 12 | 54 | Valencia | C | 19 | 66 |
| Cape Town | S | 25 | 77 | Jo'burg | C | 18 | 64 | Oslo | C | 7 | 45 | Venice | S | 14 | 57 |
| Caracas | C | 27 | 81 | Lima | C | 21 | 70 | Paris | S | 14 | 57 | Vienna | C | 4 | 39 |
| Casablanca | S | 30 | 86 | Lisbon | R | 13 | 55 | Peking | S | 9 | 48 | Warsaw | C | 4 | 39 |
| Chicago | F | 0 | 32 | London | S | 15 | 59 | Prague | Fg | -1 | 30 | Washington | S | 12 | 54 |
| Cologne | S | 13 | 55 | Los Angeles | C | 14 | 57 | Reykjavik | C | 1 | 34 | Zurich | C | 3 | 37 |
| Copenhagen | S | 10 | 50 | Luxembourg | S | 9 | 48 | | | | | | | | |
| Corfu | S | 20 | 68 | Madrid | F | 20 | 68 | | | | | | | | |
| Dallas | | – | – | Majorca | S | 22 | 72 | | | | | | | | |
| Dublin | C | 12 | 54 | Malaga | F | 21 | 70 | | | | | | | | |

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

# Delors hints at embrace

Continued from Page 1

fellow foreign ministers last week but today's finance meeting was more appropriate, UK officials said, for "some serious consideration" of the plan.

The UK plan has been couched to appeal chiefly to the doubters in West Germany about hasty replacement of the European Monetary System, in which the Bundesbank has leading say. If events in Berlin also give Bonn cause for political hesitation about agreeing to President François Mitterrand's expected call next month to convene a conference of the Twelve next year to create an Emu, it will find an eager ally in London.

On tax finance ministers will have before them a compromise deal proposed by the French presidency. This would cover administration of value added tax and excise duty payments, and approximation of VAT rates, once existing fiscal controls at internal EC frontiers disappear after 1992.

THE LEX COLUMN

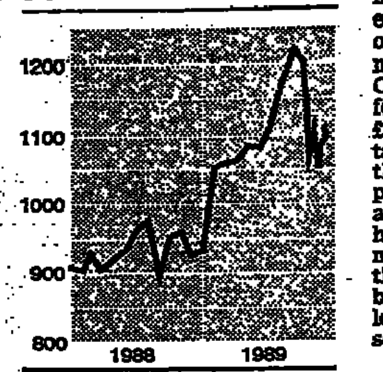
# Services sound the retreat

As the Bank of England was again reminding us last week, the threat of UK recession still hangs in the air. The equity market's chief reaction is to scrutinise manufacturers like ICI for signs of a repeat of the disastrous profits slump of 1980. This is looking in the wrong direction. The profits slump is already here, not in manufacturing but in services. As in 1980, the reasons have less to do with deficient demand than with excess supply.

The point is particularly clear in retailing. Despite the shrieks of agony from retailers, the latest retail sales figures show volume still 2 per cent higher than a year ago. The problem is rather one of grossly optimistic expansion and overcapacity, with growth in costs running far ahead of that in revenues. The picture is similar in services ranging from stockbroking to estate agents. Between 1979 and 1988 the UK manufacturing sector, bruised by its own gross over-expansion in the late 1970s, increased its real investment by under 1 per cent in total. The corresponding figure for services was 93 per cent.

Of course, the trouble in services may to some extent rub off on manufacturing suppliers. But there are two more points of contrast with 1980. Then, the whole world was in recession and sterling was going through the roof. Now, the UK's neighbours are still showing reasonable growth and sterling is gently depreciating. Unlike most of the service sector, UK-based manufacturing can export and survive. In stock market terms, sectors like stores may not be over the worst: as for manufacturers like ICI, the market may be barking up the wrong tree.

FT-A All-Share Index





## Bond matters

It is not only the managers of the Hongkong and Shanghai Bank who are watching Mr Alan Bond nervously. This week the art world gets its first chance to see if Mr Bond's investment record in fine art is better than elsewhere, when he sells his first major painting in 20 years. Meanwhile, there are persistent rumours that he may sell Glympton Park, the English country estate he bought in better times. If he can sell either at a handsome premium, it would bolster confidence considerably in two markets which have been out of synch with equities for a surprisingly long time.

Although a seat on the New York Stock Exchange only costs $470,000 now, compared with a peak of $1.15m on the eve of the 1987 crash, prices of rare paintings and English country houses have roared ahead in the period. This suggests either that the stock market wobbles were peculiarly local events, or that the speculative froth in equities in 1987 has yet to be blown off these other markets. Either way, the presence of a highly leveraged vendor is a far better test of true asset values than the price paid by a buyer who has been lent half the purchase price by the auctioneers, as Mr Bond was for his $54m purchase of Van Gogh's Irises two years ago.

Not surprisingly, Mr Bond and Sotheby's are not putting Irises back on the block so soon. A sharply lower price would send the wrong signal to less sophisticated Japanese investors who play such a big role in the art market these days. A private sale – perhaps with generous deferred terms to flatter the price – should not be ruled out. Meanwhile, Mr Bond is playing safe and auctioning Manet's La Promenade. Assuming he gets $12m, he will have more than trebled his money in six years, which is considerably better than the 225 per cent rise in Wall Street and the 245 per cent rise in the FTA-All Share index over the same period.

Mr Bond can also take comfort from the fact that the market for English gentlemen's country estates has held up remarkably well. Mrs Thatcher's captains of industry have been pouring money into the limited market for country seats, if not the stock market. Savills' average price for country properties in the last six months was 34 per cent higher than a year ago, compared with the 7 per cent rise in the Halifax's average house price index over the year.

But there are signs of growing softness which may be due either to interest rate worries or fears of a change in Government. The asking price for the Compton estate in Hampshire, for example, has been cut from £17m to around £14m. The time taken to sell it suggests that the bull market in country properties may be coming to an end. Mr Bond and other highly leveraged entrepreneurs may still be well ahead with their alternative investments, but the negative effects of leverage are not solely the preserve of the financial markets.

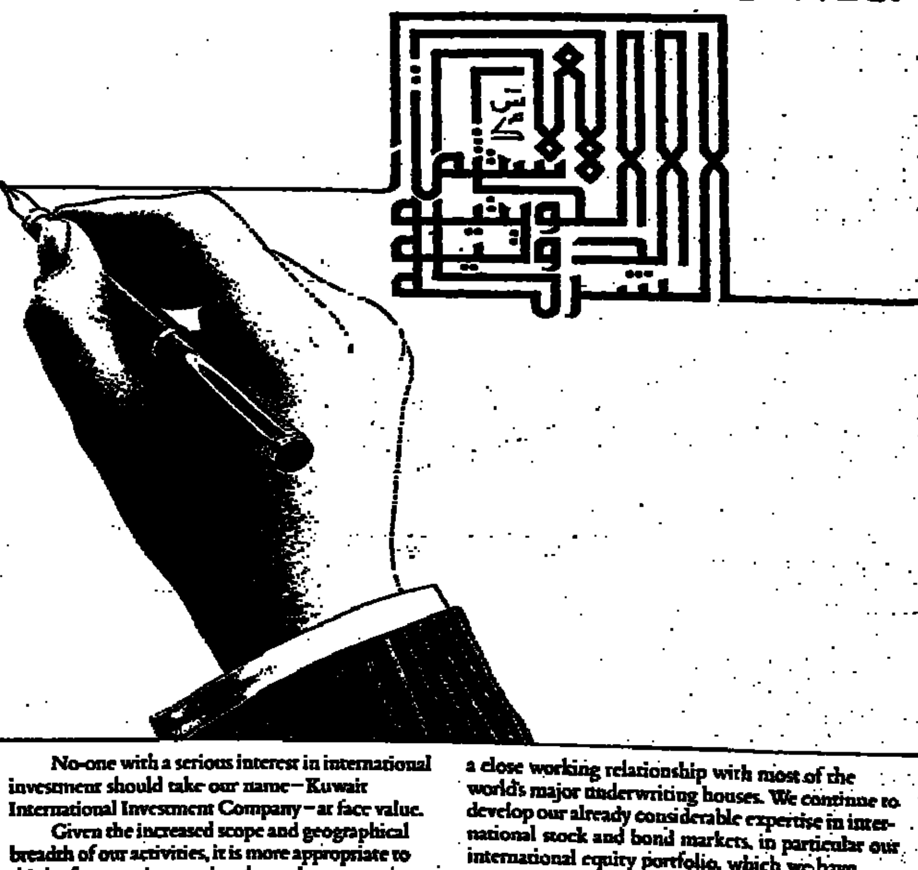
## AMP/Pearl

So much high flown stuff will emerge over the next few days about the price to put on Pearl Group that it is worth getting some basics straight at the start. Whatever one thinks of Pearl's present management, 1966 was the last year in which it failed to increase its dividend. Since the early 1970s, its dividend record has been almost precisely on a par with Marks and Spencer's. In the face of the hostile bid from Australian Mutual Provident, Pearl's consulting actuaries are due to publish their appraisal of Pearl's value on Tuesday. Whatever they come up with, it is easy to show that a business with Pearl's franchise, sales structure and earning power is worth a good £1 per share more to a bidder than the £6.05 AMP is offering.

Given that the market value of Pearl's investments is about 1.9 times greater than its liabilities to policy holders, Pearl is in no imminent danger of having to break with its 1980s record of annual dividend increases of about 15 per cent. Assume, conservatively, 15 per cent growth for five years, 10 per cent for five years after that and 5 per cent each year thereafter, and strictly on a cash flow basis Pearl looks worth £7.25 per share.

The best counter-argument for AMP is that Pearl's management is so moribund that there is a perceptible risk that its earnings record will start to collapse in the next decade. The evidence is doubtful. AMP may argue that Pearl's market share has slumped; but it is debatable whether market share is an appropriate strategic goal for a UK life company. Also, Pearl's expenses record shows that in the last 10 years it has made itself a much more efficient operation than most of its peers, albeit one which probably needed the kick which the bid has administered.

IN INTERNATIONAL INVESTMENT, THIS IS OFTEN THE SHORTEST DISTANCE BETWEEN TWO POINTS.



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## INSIDE

### Breaking away from those family ties

When the £38.5m buy-out of Dwek Group went through in 1988 the time had come for Maurice Dwek to move on from the family-controlled consumer products manufacturer where he had spent more than half his life working. Mr Dwek and his two brothers were "three quite forceful blokes all on the same bridge. And the bridge wasn't getting any bigger." With Mr Tom Forsyth, Dwek Group's former finance director, Mr Dwek created Seaforth Investments, a joint venture backed by MIM Britannia-managed funds. In its first year, Seaforth has invested or agreed to invest nearly £20m in two private businesses and two listed companies. Clay Harris reports. Page 28

### Competition in a quality field


European and US companies are rife these days with tales of quality-control derring-do. Over a wide range of industries, companies claim to be fighting back at last against Japan's dreaded drive to conquer the world by smothering it with high-quality products. However, as Christopher Lorenz explains, in industry after industry where the Japanese are active, quality is no longer a weapon for winning the competitive game, but merely a qualification for playing it. Page 44

### Petersen to leave Ford

Mr Donald Petersen's decision to retire early as chairman of Ford Motor, the world's second largest automotive group, marks the beginning of the end of an era in the US auto industry. Mr Petersen's departure next March at the age of 63 — he will have been chief operating officer or chief executive officer of Ford for ten years — was fully expected. It is only the timing that has come as a surprise, writes Kevin Done. Page 25



# International ambitions mask national rivalries

**David Waller on changes among accountancy firms**

The world's largest accountancy firms like to claim that they are driven by the needs of their multinational corporate clients. For that reason, the firms have spent this summer either merging or talking about merging — and as a result the long-familiar Big Eight is in the process of slimming down to a Big Six.

It has not been a simple process. For a start, Price Waterhouse and Arthur Andersen embarrassed themselves when they abandoned their talks after four months of discussions. And while Ernst & Whinney and Arthur Young managed to get together to form Ernst & Young, the proposed link-up between Touche Ross and Deloitte, Haskins & Sells was upset by the defection of Deloitte's UK to Coopers & Lybrand.

It seems likely that Deloitte will fragment further over the coming months as other firms — in Australasia as well as Europe — decide to join up with Coopers, or other parties altogether.

The Deloitte/Touche/Coopers episode highlights a gap between the accounting firms' marketing claims and business reality. The firms' avowed strategic purpose is to be as international as possible, so as to serve the needs of the international client. But — if the fate of Deloitte is anything to go by — the firms are far from being cohesive, tightly-bound organisations.

There are a number of factors which mitigate against the firms being truly international. Language barriers and wildly different business cultures around the globe are only part of the equation. More important are the following:

● History. While most of the big firms have roots going back to the origins of the accounting profession in nineteenth century England and Scotland, the majority acquired their present international structure in the aftermath of the Second World War, via a merger between a large UK firm and a large US firm.

To take a few examples: Deloitte & Co merged with Haskins & Sells, a New York firm, in 1978; in 1957, Cooper Brothers, a UK firm, formed a European alliance with Lybrand, Ross Bros & Montgomery of the US to form Coopers & Lybrand, and; in July 1979, Ernst & Ernst allied with Whinney Murray to form Ernst & Whinney.

The exceptions are: Arthur Andersen, which only expanded out of the US after the war, and Price Waterhouse, which moved to the US early in the century. Both of these have made bolt-on acquisitions, but not transatlantic mega-mergers.


In all but these two cases, history has preserved different cultures on either side of the Atlantic. Critics argue that in the case of PW there is a tension between the UK and Europe — spiritual home of the firm and the accounting profession — and the US, which has grown to be the most significant segment of the firm's revenues for obvious reasons. This is strenuously denied by the London firm, which now presides over a new European structure established last year.

● National law and the impact on the legal structure of the firms. Different countries have different rules on auditors and whether they can practice as companies or provide their audit clients with other glamorous services like management consultancy.

In practice, this means that even the firms with the most claim to be truly international — as opposed to those which are little more than mere franchising operations — consist of myriad legal entities brought together with varying degrees of formality at the global level. All Andersen partners are partners in one Swiss-based firm, but there will be numerous legal entities below that; PW's world firm consists of a partnership of 26 partnerships; under the Deloitte mantle, there were as many as 50 individual firms before they started to break apart.

● Arrangements for sharing profits and costs between partners. It is an Andersen maxim that it is the only truly global firm because it is the only firm where costs and profits are shared globally.

Andersen and PW are reluctant to describe their profit-sharing mechanisms But these two firms believe that they function more globally because of the extent to which the partners are bound to one another financially.

All the big firms have to struggle to reconcile the need to become more international — thereby ironing out idiosyncrasy at the local level — with the virtues of autonomy country by country. Within the Big Six, there are degrees of federalism. KPMG — known as Peat Marwick in the UK — is proud of its federal structure, saying that the greater power accorded to the national firms explains why it managed to woo KMG as a merger partner two years ago where other big firms failed.

Below the top-tier firms, the international ties are slacker. This is not unreasonable — most of Stoy Hayward's clients, for example, will be UK-based but may conduct business overseas. So it makes sense for the firm to establish links with Horwath & Horwath, a firm which, like Stoy, is strong in the property and entertainment sectors.

Andersen is at the opposite extreme. Its competitors speak in horrified tones of a firm run by *diktat* from Chicago — and its centralised structure is clearly one of the reasons why the merger with Price Waterhouse failed to take place.

The shake up in the accounting industry may well have repercussions going beyond the firms themselves, however. Industry gossip suggests that clients worried about how international their firms really are, may seize the opportunity to put their audit up for tender.

# Perestroika, US-style, is difficult too

**By Anthony Harris in Washington**

"NEXT YEAR will be the beginning of the Gorbachev-driven defence budget," said the chairman of the House Armed Services Committee, Mr Les Aspin, last Friday. At a cursory glance, this is a prospect full of fiscal promise. President Bush has long nurtured a private hope that disarmament would help to reconcile his ambitions for a kinder, gentler regime with his stand against high taxes; and it now seems clear that he is getting his wish with astonishing, almost frightening speed.

Mr Aspin, however, was not really talking about cuts, but about procrastination on Capitol Hill. He was summing up what everyone seems to regard as an irresponsible set of military spending decisions in the House.

"The House not only refuses to take tough decisions," said Rep Bill Dickinson, Mr Aspin's Republican opposite number. "It refuses to pass the buck, and let the executive branch take them. If you do not know where you are going, any road will do."

Mr Aspin and Mr Dickinson went on to vote for the programme which they deplored. It was the best compromise that could be achieved: it did at least allow the Pentagon to kill six of the ten programmes it has proposed to terminate. However, it prescribed nearly $1.4bn on Congress figures, or $2.5bn on Pentagon figures, for unwanted naval fighters and helicopters, and a conservatively estimated $8bn for the Osprey tilt-rotor vehicle for the Marines, as well as smaller matters.

These votes will all "save jobs" for the time being — or more realistically, will ensure that highly skilled manpower remains tied up in redundant, unmarketable products. (So, for that matter, will the absurd military truck which is Mr Aspin's personal contribution to the military pork-barrel.) The decisions exemplify a bad system which may be almost as difficult to wind up as the Russian bureaucracy.

The system does not in fact block cuts: the defence budget has been reduced by some 15 per cent in real terms from its peak, under the pressure of the Gramm-Rudman process. It does so, however, at a heavy real cost. Because Congress is unable to face the hard decision to bring programmes to an end, it tends to trim them; this simply means that the huge research and tooling costs involved in each new system are loaded onto fewer actual weapons, and unit costs escalate.

It is quite largely for this reason that the Pentagon is always arguing, and quite convincingly, that despite its swollen budget, it is sliding along the very edge of inadequate preparedness. This plea is again being put to Congress in an effort to get a spending bill offering $16bn-worth of real economies, instead of the optical illusions (many of them invented by the executive) which pass for cuts in the present legislation.

The annual budget crisis ought to have been avoided this year, since the economies required were marginal. Next year the required cuts will be of the order of $60bn, and nobody even pretends that this is manageable. Unless Gorbachev-driven defence budgeting is something quite different from the present process, the goal-posts will have to be moved again, as they were in the Gramm-Rudman "fix" only two years ago. That evasion, the more pessimistic Americans have feared, could be the event which provokes the long-forecast dollar crisis.

In short, the US economy as well as the Russian could be in danger of cracking under the burden of defence spending; and President Bush, as well as Mr Gorbachev, now seems to face domestic problems which are far more difficult than they have with each other. The problems, to be sure, are wildly different in scale. The Russian crisis could be an unpredictable disaster for everyone, while a US crisis could be a blessing in disguise — the provocation that is needed to get Congress to face its responsibilities. All the same, it would be much better if the US could solve its problems without a crisis, and the markets will be betting attentively on the outcome. As long as they believe that real, deficit-reducing cuts are on the way some time, they will be patient.

It is always difficult to predict the future balance of power between the two main branches of the US government, even when they are controlled by the same party. Domestically the balance shifted toward Congress last week, as the Democrats made a clean sweep of the important off-year elections. The much bigger changes in Communist Europe, however, could favour Mr Bush. This is perhaps the test which he has been waiting for through his cautious and pretty unimpressive first year since election.

The President starts with a self-imposed handicap. The cautious, down-played responses he naturally favours seem entirely appropriate at the moment. All the same, it is difficult to summon your troops to the charge when you are sitting on your hands. The Malta summit is of course going to be far more important internationally than seemed likely even ten days ago; but Mr Bush's reverses at home, in elections and in his personal campaigns, means that it is important domestically too.

The defence budget looks like the core issue. Mr Bush has so far pursued a poker-player's strategy, preserving every strategic programme so that he has something to bet with in the coming rounds of talks.

Now the Russian domestic crisis, the sudden, tentative pacification of Europe, and the new doctrine of mutual security instead of mutually ensured destruction all argue for quicker, more radical action. That is also, as it happens, what would give the markets the most solid reassurance, because it is the momentum of programmes for the future which keeps the deficit inflated more or less forever.

If Mr Bush brings enough prestige back from Malta he will have an opportunity as well as a challenge. He should be able to complete the review of Pentagon long-range planning which is already in progress. More radically, he might even be able to recover the control over expenditure which the Administration lost with the Budget Reform Act of 1972, when Congress took away the power of recission — the right of the White House to spend only what it chooses out of the money Congress votes. The recission issue is on Mr Bush's published wish list.

The shamefaced Congressmen who have just passed their own defence budget seem to be in a mood to accept some White House control of defence spending, but the principle is surely wider. The most basic power of any democracy is the control of taxation, but this has become inverted in the US power-struggles. It is now the parliament which insists on spending, and the executive which refuses to tax. Simon de Montfort, and the townspeople who held the Boston Tea Party, would find it all hard to believe.

## Economics Notebook

# Cool view of Pöhl's EMS line

THE BRITISH Treasury would be ill advised to pin too many hopes on last week's news from West Germany that Bundesbank President Karl Otto Pöhl has come out in support of its idea for competing currencies as an alternative to the later stages of the Delors Plan, which envisages a single European currency and central bank.

The word from Frankfurt at the end of last week was that Mr Pöhl has some sympathy for the British plan, but mainly to the extent that it reflects long held Bundesbank views.

The Bundesbank, as befits the statutory guardian of West Germany's currency, is pleased that the Treasury has put "price and currency stability" at the top of the objectives of monetary union in Europe.

With the Deutsche Mark supported by relatively low inflation and a huge current account surplus, the West German central bank feels comfortable with the British idea that currencies should "compete to provide the non-inflationary anchor in the European Monetary System."

Last week, the respected Frankfurter Allgemeine Zeitung newspaper said Mr Pöhl had told a businessmen's meeting that the British plan was a "realistic and sensible description" of the things that monetary policy should concentrate on in the years ahead.

He also reportedly criticised French-backed proposals for an inter-governmental conference of European Community member states to formulate the steps required for a European monetary union as amendments to the Treaty of Rome.

Although such comments appeared outspoken, they also conformed, more or less, with known Bundesbank positions.

While the Delors' committee was still sitting, the Bundesbank made clear that it wanted to see completion of the EMS and the complete liberalisation of money and capital flows in the community before moving on to the more complex issue of monetary union. These policies are vital parts of the British plan.

In the past Mr Pöhl has also warned against too rapid moves towards an inter-governmental conference for fear that plans for a single EC currency and central bank would leave West German public opinion behind.

### Autumn checklist

In some respects Mr John Major is a lucky man. Having been Chief Secretary to the Treasury until the summer cabinet reshuffle, he will be on familiar ground when, as Chancellor, he delivers the Government's Autumn Statement on the economy this Wednesday.

The Autumn Statement is a complex affair and lacks the glamour and tradition of the Budget.

But it is an important event because it details the Government's spending plans for the following financial year and provides the first official forecast on the economy to the end of 1990.

This year, it will be more closely watched than usual for signs of a shift in policy. The word in Whitehall is not to expect radical change. Combatting inflation remains the main priority and although Mr Major has spoken of using all the levers at his disposal, the brunt of the battle will continue to fall on tight monetary policy.

A few key points to watch for are:

● The forecast. The Treasury has had bad luck with over-pessimistic forecasts in the past. However, there are sound political reasons for it to take a gloomier view of growth than the consensus of independent forecasts, which sees British gross domestic product increasing by a slow 2.1 per cent this year and next. Some economists predict growth as low as 1.5 per cent in 1990, in which case it would be lowest annual rate of growth since the recession of 1980-81.

● The spending total. This year's Autumn Statement will be more confusing than usual because of a new public expenditure planning total. This will exclude the expenditure which local authorities determine, and finance for themselves mainly through the poll tax, and will not be comparable with past totals.

This will shift attention to General Government Expenditure, excluding privatisation proceeds, which will be comparable with previous years. In the previous Autumn Statement, GGE, excluding privatisation proceeds, was set to decline to 39 per cent of GDP in 1990-91 from 39.25 per cent in this financial year. This ratio is now set to rise, reflecting slower growth and increased spending.

● The departmental winners and losers. This year's spending round has been tough for the Treasury. Health, social security and education are all thought to have boosted their spending.

● The Government finances. In the March Budget the Government forecast surpluses of £14bn and £10bn respectively for 1989/90 and 1990/91. These could fall, partly because of the buoyant sales of personal pensions. The Treasury may also revise down its estimate of privatisation proceeds this tear, partly because of the "green dowry" that is being given to the water industry.

**Peter Norman.**

## THIS WEEK

THIS is Mr John Major's week. Today he presents Britain's idea of "competing currencies" to European Community economics and finance ministers in Brussels, as an alternative to the Delors proposals for a single European currency and central bank.

Barring an unforeseen and highly improbable revolt in Cabinet, the Chancellor will stand before the House of Commons on Wednesday to present the Government's Autumn Statement on the economy. The Autumn statement is half a Budget, presenting the Government's public expenditure plans for the 1990/91 financial year and outlining the framework for spending in the two subsequent years. It also contains the latest Treasury forecasts for the economy.

Mr Major will want to couch the Government's spending decisions in terms of a rigorous counter-inflation policy. However, the Treasury is generally expected to have conceded increases in several important spending plans for 1990/91.

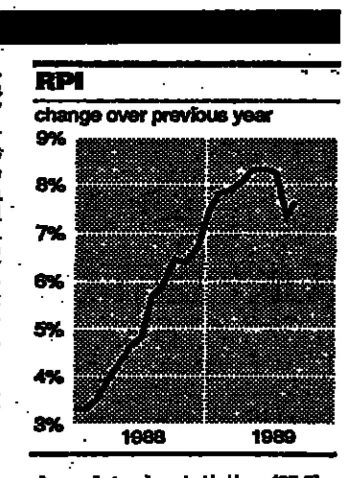
One of the Treasury's problems has been the higher than expected rate of inflation this year.

On Friday, the Government will publish the retail prices index for October which should show a slowdown in the UK's annual inflation rate from September's 7.6 per cent, as the October 1988 mortgage rate increases drop out of the comparison.

The consensus of analysts' forecasts compiled by MMS International, the financial research company, suggests that October's retail prices index will rise by 0.5 per cent compared with September and by 7 per cent on a year-on-year basis.

Other events (with MMS consensus in brackets) include:

**Today:** UK, October provisional producer prices (input up 0.1 per cent, output up 0.4 per cent), October provisional retail sales (up 0.4 per cent). France, revised second quarter GDP, Japan, October customs cleared trade statistics ($5.5bn deficit), October Bankruptcies.




**Tuesday:** US, October retail sales (down 0.7 per cent). Meeting of US Federal Open Market Committee. Japan, October wholesale prices (down 0.4 per cent; year on year up 3.5 per cent); September machinery orders.

**Wednesday:** UK, September industrial production (up 0.6 per cent), manufacturing output (up 0.25 per cent). US, industrial production (down 0.2 per cent), capacity utilisation (83.4 per cent), business inventories (up 0.1 per cent).

**Thursday:** US, September merchandise trade (minus $9bn). UK, October provisional vehicle production, October PSBR (minus £1.6bn), 3rd quarter provisional capital spending by manufacturing industry, labour market statistics including October unemployment (down 30,000), vacancies and September average earnings (up 9 per cent). West Germany, Bundesbank central council in Frankfurt. France, provisional October consumer price index, OECD economic policy committee meeting in Paris.

**Friday:** UK, October tax and price index. US, October housing starts (1.3m). Minutes of Oct 3 FOMC meeting. Japan, September personal income and consumption.

**During the week:** West German wholesale prices and cost of living index.

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# INTERNATIONAL CAPITAL MARKETS

EASTERN EUROPE AND THE BOND AND BANKING MARKETS

## Soviet bank brings a whiff of glasnost to London

GLASNOST came to the international bond market last Friday when officials of Vnesheconombank, the Bank for Foreign Economic Affairs of the Soviet Union, gave a presentation to institutional investors and set out the bank's intention to launch public bond issues on London's capital markets.

The bank has already issued seven public bond deals elsewhere, including three issues denominated in D-Marks. However, in an interview with the Financial Times, Mr Eduard Gostev, deputy chairman of Vnesheconombank, said: "We came to London to tell people more about the bank and what it does, to lay the ground for issuing public bond deals."

He said the intention was to list any deals on the London Stock Exchange, but added that the timing and terms were still undecided. Mr Gostev agreed that sterling or US dollars were the most likely currencies for intitial borrowings, although he added that the bank would be guided by market demand and would swap funds into whatever currency it actually needed. The likely maturity of an issue would be around five years, although a 10-year maturity was not ruled out.

Eurobond syndicate managers expressed interest in the news, but said they would wait to see the terms of any issues before they decided whether or not to participate. Given current market conditions, it could be a while before a deal emerges: certainly the sterling market is not in optimum shape for a fixed-rate deal to find easy acceptance, whatever the borrower.

Friday's presentation, hosted by Samuel Montagu which is likely to be the lead manager of the first bond issue by the Soviet bank, was attended by around 70 investment managers who were given unprecedented details of the bank's operations and position within the structure of Soviet economic management.

In the past, little has been known about the bank's role or obligations. In preparation for its first deal, Vnesheconombank undertook an internal review and produced information on its assets and liabilities which it hopes will satisfy investors that it is a satisfactory borrower.

Whether it achieved its aim is debatable. A straw poll among some of the investors who attended the presentation revealed a majority expressing suspicion not so much about the bank's balance sheet as about the political risk of an issue.

Given that the bulldozers were busy on the Berlin Wall even as Mr Gostev was speaking, and given the huge changes occurring in the Soviet Union, such investor caution was hardly surprising.

One fund manager said: "The lack of a specific state guarantee is a problem for us – we would like to see that backing." That objection went to the heart of the purpose of the Soviet officials' visit to London.

"We do not offer a formal state guarantee as such," Mr Gostev said. Indeed, under the bank's statutes it is stated that the Soviet Government is "not liable for the obligations of the Bank".

The officials stressed that the bank was amply qualified to borrow for itself, and set out its position within the Soviet Union. The bank is a state-owned legal entity with specific responsibility for the Soviet Union's external finances, including the balance of payments. It is the only institution allowed to licence foreign exchange operations by other Soviet entities, but it also operates as a commercial bank in its own right.

Mr Gostev made it clear that the bank would be borrowing in London in its own name, not directly on behalf of the USSR. He stressed that this was a problem of documentation only.

Investors with long memories might choose to disagree, thinking back to the effective default on Imperial Russian bonds that followed the 1917 revolution. On the direct question of default risk, Mr Gostev was up-beat: "Any outstanding old problems can be solved by ongoing discussions with the parties involved. We are looking ahead."

The institutional investors were prepared to concede that the Soviet Union has come a long way forward, but in the end they adopted a position similar to that of banks which will be asked to underwrite any deals.

"The bank was testing the water," said one fund manager. "I want to see the terms before I commit myself, but until then I will decide how I rate the credit."

Put another way, investors face two questions. First, do they think the bank is likely to default on its borrowings ? If the answer is yes, then clearly they will avoid buying its paper. If no, then the simple follow-up query is how much the bank will have to pay to make its bonds attractive.

That, complicated by the vagaries of market timing, is the call facing syndicate managers at Samuel Montagu.

It is a call already faced by German, Austrian, Italian, Dutch and Swiss bankers when they issued deals for the Soviet bank. In general, the Soviet deals in these markets were aimed at local demand.

It would not be going too far to suggest that these forays into Western capital markets were good practice for what will be the real test in London.

For example, in Germany, the Soviets have already learned one hard lesson – no matter how well priced an issue, its performance depends on factors outside the borrower's control.

In March this year, a DM750m seven-year deal with a 7 per cent coupon was issued for the bank by Deutsche Bank had a slow start amid lack of demand and a climate of rising interest rates. This was despite the bonds offering an attractive yield over comparable paper.

● The first ever dual currency Eurobond matures today in Switzerland, with Warburg Soditic, the lead manager, claiming a fine performance by the issue. The 8¼ per cent notes issued in November 1981 for TransAmerica Financial Coroporation, have given original investors an annual yield of 13.31 per cent and a capital gain of SFr31,000.

**Andrew Freeman**

## Western banks take a cautious stance

THE HISTORIC events sweeping eastern Europe have revived discussions about the possibilities of financing the economic transformation of countries in the region. The initial consensus reflects an unfortunate facet of international banking: that lending to countries with repressive governments is often seen as a safer bet than financing those undergoing a welcome shift towards democracy.

Although individual bankers may be as excited as anyone by the most momentous political change in Europe in half a century, most perceive their roles cautiously. They are not about to lend money that will not be repaid, however dramatic the political backdrop.

The pace of change is so disorienting that most banks are content to wait for developments to unfold. The message from the head office of at least one prominent New York bank is to stand back. From Tokyo comes the word that banks' headquarters are not comfortable with the speed of transformation. The need for foreign finance may be large, but the risks of lending are at this stage seen to outweigh the risk that opportunity will be ceded to the West German banks, perceived to be best able to interpret developments on their own doorstep.

The lifting of the veil has shown how deep are the economic and political problems for so long suppressed in eastern Europe. As a result, the cost of borrowing for those countries with market access has climbed over the last year, although this is also partly due to the heightened awareness of banks' costs of capital following the Basle accords.

Bankers' preferences have shifted among those countries with access to and interest in the international banking market, to the detriment of Soviet and East German borrowers. As shown by the recent successful shipping financing for Sovcomflot, under the guarantee of the Soviet Ministry of Merchant Marine, Soviet risk is still welcomed in the market, but at interest margins – in this case ¾ point over interbank rates – higher than in recent years.

According to Bank for International Settlements figures, released last week, gross Soviet debt to western banks stood at $39.6bn at mid-year, its deposits with them $15.2bn. East Germany owes $15.3bn and has $9.9bn on deposit, but that excludes its relations with West German banks.

Attitudes to Czechoslovakia and Hungary remain much as before – for different reasons. Czechoslovakia has not moved far in the restructuring of its economy but is not seen as overborrowed, with foreign bank debt standing at mid-year at $4.3bn, according to the BIS.

Hungary is more heavily borrowed – owing $10.9bn to banks at mid-year, compared with $11.6bn a year earlier. The constraint on enlarging its borrowings is not political risk, since a long-standing policy of relative liberalism has made it seem the country best prepared for political and economic change; it is the more mundane consideration of banks' individual country limits. The country was rumoured last week to be sounding out international banks to raise up to $500m.

● The second French leveraged buy-out financing in a month is being syndicated among international banks, after the syndication of the first was suspended because of an apparent legal hitch. The syndication, for the buy-out for Sicli, the fire protection and detection group, had gone well until halted because of the problem, said to concern the tax treatment of interest payments. The financing is underwritten so the deal is not is jeopardy.

**Stephen Fidler**

### EUROMARKET TURNOVER ($m)

| Primary Market | Straights | Conv | FRN | Other |
|---|---|---|---|---|
| US$ | 2,120.8 | 0.0 | 418.0 | 10,172.2 |
| Prev | 1,400.0 | 0.8 | 218.5 | 11,854.4 |
| Other | 1,174.2 | 5.9 | 504.0 | 3,747.5 |
| Prev | 673.9 | 0.5 | 156.9 | 2,239.2 |
| **Secondary Market** | | | | |
| US$ | 15,407.0 | 845.1 | 4,336.3 | 5,895.7 |
| Prev | 21,596.9 | 974.8 | 5,906.3 | 8,258.0 |
| Other | 15,202.2 | 980.8 | 6,621.9 | 29,261.0 |
| Prev | 12,911.8 | 996.7 | 9,283.2 | 28,809.6 |

| | Cedel | Euroclear | Total |
|---|---|---|---|
| US$ | 9,190.1 | 30,004.2 | 39,194.3 |
| Prev | 14,192.4 | 35,996.5 | 50,188.9 |
| Other | 21,047.1 | 36,650.4 | 57,697.5 |
| Prev | 18,637.7 | 30,974.1 | 49,611.8 |

Week to November 9, 1989 Source: AIBD

### NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Diesel Kiki Co.♦◆ | 200 | 1994 | 5 | 4 | 100 | Yamaichi Int. (Eur) | 4.000 |
| Keio Teito El.Railway♦◆ | 300 | 1993 | 4 | 3¼ | 100 | Nomura Int. | 3.250 |
| Heiwado Co.♦◆ | 100 | 1993 | 4 | 3⅜ | 100 | Daiwa Europe | 3.375 |
| Chuetsu Pulp Industry♦◆ | 100 | 1993 | 4 | 3⅜ | 100 | Yamaichi Int. (Eur) | 3.375 |
| Alberta, Province of◆ | 750 | 1996 | 7 | 8⅝ | 99¾ | J.P. Morgan Secs. | 8.674 |
| Toshiba Ceramics♦ | 100 | 1993 | 4 | (3⅞) | 100 | Nomura Int. | ★ |
| Cont. Cablevision(e)‡◆ | 100 | 2004 | 15 | (e) | 100 | Morgan Stanley Int. | - |
| Turkey, Republic of◆ | 250 | 1995 | 6 | 9¾ | 100 | Sumitomo Fin. Int. | 9.750 |
| Royal Trustco◆ | 200 | 1999 | 10 | 9⅛ | 99¾ | Shearson L'man Hutton | 9.164 |
| Bk Negara Indonesia(m)‡◆ | 50 | 1994 | 5 | 5/16 | 100 | Nomura Singapore | - |
| Toyota Motor Credit◆ | 250 | 1994 | 5 | 8⅝ | 100 | Nomura Int. | 8.625 |
| New Zealand(q)◆ | 350 | 1994 | 5 | 9 | 100.90 | Morgan Stanley Int. | 8.770 |
| **CANADIAN DOLLARS** | | | | | | | |
| Can.Dollar Treas.+1 '89◆ | 200 | 1994 | 5 | 10¼ | 100½ | Citibank AG | 10.118 |
| Toronto-Dom.Bk(Cayman)◆ | 100 | 1991 | 2 | 11½ | 101½ | Hambros Bank | 10.628 |
| Hamilton-Wentworth(d)◆ | 75 | 2004 | 15 | 10¼ | 101.35 | Wood Gundy | 10.072 |
| EIB◆ | 150 | 1999 | 10 | 10⅛ | 99.90 | Goldman Sachs | 10.141 |
| Procter & Gamble◆ | 120 | 1992 | 3 | 11 | 101.60 | Merrill Lynch | 10.353 |
| Deutsche Bank Finance◆ | 200 | 1999 | 10 | 10¼ | 101⅞ | Deutsche Bk Cap.Mkts | 9.946 |
| Eksportfinans(j)◆ | 100 | 1994 | 5 | 10⅛ | 100⅛ | IBJ Int. | 10.092 |
| Banque Int. Luxembourg◆ | 100 | 1992 | 3 | 11 | 101½ | IBJ Int. | 10.393 |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| IBM Australia Credit◆ | 50 | 1992 | 3 | 16 | 102 | Westpac Banking | 15.122 |
| SDS Sparekassen(n)◆ | 29 | 1994 | 5 | 7.6 | 101⅞ | IBJ Int. | 7.141 |
| **D-MARKS** | | | | | | | |
| Japan Synthetic Rubber♦ | 200 | 1994 | 5 | (1⅝) | 100 | BHF-Bank | ★ |
| Italstat Int.◆ | 180 | 1999 | 10 | 7½ | 100 | WestLB | 7.500 |
| Ono Sokki Co.♦ | 70 | 1993 | 4 | (1½) | 100 | Commerzbank | ★ |
| LKB Baden-Wuerttemberg‡◆ | 300 | 1999 | 10 | (k) | 99.90 | Deutsche Bank | - |
| **SWISS FRANCS** | | | | | | | |
| Fujirebio Inc.(c)★★§◆ | 80 | 1994 | - | ¼ | 100 | SBC | 0.250 |
| Mitsubishi Pencil(f)★★§◆ | 60 | 1993 | - | ¼ | 100 | UBS | 0.250 |
| Takashima and Co.(b)★★§◆ | 50 | 1994 | - | ¼ | 100 | Yamaichi Bank(Switz) | 0.250 |
| Dai Nippon Constr(p)★★§◆ | 100 | 1995 | - | ¼ | 100 | SBC | 0.250 |
| Shikoku Elec. Power◆ | 150 | 1999 | - | 6¼ | 100½ | UBS | 6.181 |
| Fin.for Danish Ind.★★◆ | 100 | 1996 | - | 6½ | 100⅜ | UBS | 6.432 |
| Honshu Paper Co.★★◆ | 200 | 1994 | - | 1¼ | 100 | Credit Suisse | 1.250 |
| Credit Foncier(l)◆ | 125 | 2000 | - | 6⅛ | 101 | Credit Suisse | 5.989 |
| Hashimoto Forming Ind★★◆ | 18 | 1996 | - | 6⅝ | 99¾ | Fuji Bank (Schweiz) | 6.671 |
| **ECUs** | | | | | | | |
| GECC◆ | 125 | 1992 | 3 | 9¾ | 101⅞ | Merrill Lynch | 9.009 |
| Oest. Kontrollbank◆ | 100 | 1994 | 5 | 9½ | 101⅞ | Merrill Lynch | 9.018 |
| EIB(i)◆ | 60 | 1999 | 9⅓ | 9 | 101.35 | IBJ Int. | 8.769 |
| **STERLING** | | | | | | | |
| Oest. Kontrollbank(a)◆ | 50 | 1992 | 2.6 | 12 | 99¼ | J.P. Morgan Secs. | 12.276 |
| Eurofima◆ | 75 | 1999 | 10 | 11⅜ | 99.55 | CSFB | 11.453 |
| **FRENCH FRANCS** | | | | | | | |
| Credit Local◆ | 1bn | 1999 | 10 | 9¼ | 100⅝ | Credit Lyonnais | 9.152 |
| **LIRE** | | | | | | | |
| ENEL(g)‡◆ | 400bn | 1999 | 10 | (g) | 100 | San Paolo Bank | - |
| **LUXEMBOURG FRANCS** | | | | | | | |
| KB Int. Finance(o)★★◆ | 600 | 1995 | 6 | Zero | 61.295 | Kredietbank Int. | 8.500 |
| EIB★★◆ | 300 | 1996 | 7 | 8½ | 101 | BIL | 8.306 |
| Fin.for Danish Ind.★★◆ | 300 | 1994 | 5 | 8⅞ | 101⅛ | Kredietbank Int. | 8.557 |
| AB Electrolux★★◆ | 300 | 1992 | 3 | 8¾ | 101 | Kredietbank Int. | 8.360 |
| **YEN** | | | | | | | |
| Abbey National◆ | 40bn | 1993 | 3¼ | 6⅜ | 101¼ | Daiwa Europe | 5.929 |
| Commerzbank O'seas Fin.◆ | 10bn | 1992 | 3 | 6⅛ | 101⅛ | Yamaichi Int. (Eur) | 5.706 |
| Skand.Enskilda Bnkn(h)◆ | 3bn | 1991 | 2 | 7 | 101⅛ | Nippon Credit Int. | 6.383 |
| Flash 10 Ltd.◆ | 1bn | 1994 | 4½ | 5¾ | 101⅝ | Sanwa Int. | 5.325 |
| Flash 10 Ltd.◆ | 1.84bn | 1994 | 4½ | 6 | 102⅝ | Sanwa Int. | 5.319 |
| American Express Co.◆ | 10bn | 1993 | 4 | 6.1 | 100.60 | Nomura Secs. | 6.017 |
| Smart 8 Ltd.◆ | 5bn | 1994 | 5 | 6⅛ | 100.10 | Sumitomo Fin. Int. | 6.101 |
| Banque Nat. de Paris◆ | 20bn | 1992 | 3 | 6¼ | 101¼ | Nomura Int. | 5.784 |

★Not yet priced. ★★Private placement. ♦With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Fungible with £100m bond issued in June. b) Yield to put 3.428%. c) Yield to put 3.429%. d) Put at par after 5 and 10 years. e) First 7 years 300bp over 3-month Libor, then +450bp for 2 years, +550bp next 2 years and +650bp to maturity. f) Yield to put 3.422%. g) Mean of 6-month Libid and latest net annual yield of Italian bond index(ICM) rounded to nearest 0.05%. h) Redemption linked to Nikkei stock index. i) Fungible with bond issued in April and increased in May to Ecu225m. Issue price plus accrued interest. j) Fungible with C$150m bond launched in July. k) 6-month Libor flat. Call from Nov. 1993 at 100. l) Issue may be increased to SFr150m. m) 5/16 over 6-month Libor. Call after Nov. 1992 at 100. n) Dual-currency - coupon payable in US$. Put at 100 in 1992 and 1993. o) Launched in two tranches of LFr300m each. p) Yield to put 3.436%. q) Fungible with $500m bond launched in August. Note: Yields are calculated on AIBD basis.


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# Japanese steel groups maintain strong growth

By Ian Rodger in Tokyo

PROFITS OF most of Japan's big integrated steelmakers continued to surge in the first half of the 1989-90 fiscal year against the background of exceptionally strong domestic and overseas demand, increasing benefits from rationalisation and the weakening yen.

Nippon Steel, the world's largest steel maker, reported a 56.5 per cent increase to Y92.3bn ($643.9m) in pre-tax profits for the six months. Kawasaki Steel boosted pre-tax earnings by 21 per cent to Y52.3bn, Sumitomo Metal by 17.5 per cent to Y47.4bn and Kobe Steel by 33.5 per cent to Y28.2bn. NKK suffered a 9 per cent setback to Y40.7bn.

Nippon said rolled steel shipments grew 1.3 per cent to 13.3m tonnes. The company said the value of dollar denominated exports rose by Y20bn during the period, leading to a Y5bn profit on foreign exchange. For the full year, the company forecasts a record pre-tax profit of Y200bn, up 24 per cent from last year's level.

Kawasaki said the 7.4 per cent rise in sales was mainly attributable to a Y6,700 per tonne rise in its steel prices. Production and shipments were flat on the whole, although the demand for sheet steel from the automotive industry was very strong. Sales of sheets were up 10 per cent to Y345.9bn. Kawasaki is forecasting an 11.2 per cent rise in pre-tax profits in the full year to Y105bn.

The decline in pretax profits of NKK was attributable to a rise in financing costs. The company's operating performance was in line with the other integrated producers, its operating profit rising 17.6 per cent. Sales in the steelmaking division rose 8.5 per cent to Y490.3bn while the engineering division's sales jumped 46 per cent to Y82.7bn.

Sumitomo Metal said sales in its steel division were up 7.3 per cent to Y500.2bn. Pretax profit growth was boosted by a Y6.1 reduction in interest payments following loan repayments. Sales of steel pipes are expected to improve in the second half, so pre-tax profits for the full year could reach Y95.5bn, up 9 per cent.

Kobe said steel sales, which accounted for half the total, rose 8.5 per cent while construction machinery and aluminium and copper alloy sales both rose by more than 10 per cent. The machinery division was profitable for the first time in five years, following closure of unprofitable overseas plants. The company is forecasting a pretax profit of Y56bn in the full year, up 18.6 per cent.

# End of an era for Ford and the US motor industry

## Kevin Done reports on the boardroom changes that have been signalled for the American auto sector

MR Donald Petersen's decision to retire early as chairman of Ford Motor, the world's second largest automotive group, marks the beginning of the end of an era in the US auto industry.

Next year Mr Roger Smith is due to retire from the chairmanship of General Motors after a turbulent decade at the top of the world's biggest auto maker, and Mr Lee Iacocca, the man who has guided the third-placed Chrysler from the brink of financial collapse to financial respectability, indicated recently he would not renew his four-year contract, when it expires in late 1991.

Mr Petersen's departure next March at the age of 63 – he will have been chief operating officer or chief executive officer of Ford for 10 years – was expected, it is only the timing that has come as a surprise.

Previously it had been expected that Mr Harold Poling, for long Mr Petersen's number two, would be the first to retire of the duo, that has led a resurgence in Ford's fortunes during the 1980s.

Instead Mr Petersen's decision to retire early means that Mr Poling, the older of the two men at 64, will have the chance to run the corporation for three years until early 1993.

That is when the real generation change will take place, with Mr Allan Gilmour, 55, favourite to take over as chairman. In the present management shake-up, Mr Gilmour, has been promoted to president of the Ford Automotive Group, replacing Mr Philip Benton, 60, who succeeds Mr Poling as chief operating officer.

Mr Gilmour was previously executive vice president for international automotive operations, a position in which he has played a decisive role in forming the strategy behind Ford's recent £1.6bn bid for Jaguar, the UK luxury car maker, as Ford seeks to expand its role in the world luxury car market.

After the turmoil of earlier decades when members of the Ford family ran the corporation, Ford top management has set great store by orderly succession in recent years, but during 1989 new tremors have been sent through the structure as a new generation of the Ford family has begun to flex its muscles.

Mr Edsel B. Ford II, the 40-year-old great grandson of Mr Henry Ford, the company founder, created a rumpus at

Donald Petersen: timing of departure comes as surprise

the beginning of this year, when he complained publicly that Mr Petersen treated him and his cousin Billy, Mr William Clay Ford Jr, the only Fords with serious prospects now working for the company, as third class members of the board.

In an interview with Fortune magazine he said: "I've made it clear on one or two occasions to Mr Petersen, that it does seem a bit odd to me that there are three classes of directors, inside, outside and Billy and me." The two young Fords were first appointed to the board in January, 1988.

There have been efforts to smooth things out in recent months with Edsel promoted to executive director, corporate marketing staff and assigned to the important finance and executive committees of the board, while 32-year-old Billy has been brought back from exile running the Ford Swiss sales operation to head the heavy truck engineering and manufacturing division.

Behind the intense scrutiny of Edsel's career is the worry that nepotism might compromise Ford's performance, which, under the professional managers led most recently by Mr Petersen, has been greatly improved with Ford making a much higher profit per car than GM in recent years.

The two Fords are still corporate youngsters, but the Ford family controls around 40 per cent of the votes in Ford. Even though they are still outsiders for top posts at the moment, there will be increasing speculation surrounding their names, when Mr Poling and most especially Mr Gilmour are due to retire from their jobs at the top of Ford over the next decade.

# MGM/UA cuts deficit in final quarter

By Karen Zagor in New York

MGM/UA Communications, the Hollywood studio which is up for sale again after a $1.5bn takeover deal with Qintex of Australia collapsed last month, reported a reduced loss for its fourth quarter.

The company, which has been for sale for more than a year, reported a net loss for the three months ended August 1989 of $13.3m or 26 cents a share against a loss of $37.9m or 75 cents a year earlier.

Operating revenues for the period advanced 23 per cent to $196.5m. Operating income was $8.2m.

MGM/UA, which was formed by Mr Kirk Kerkorian in 1981 from the celebrated MGM and United Artists studios, saw losses for the full year increase by 53 per cent to $74.7m or $1.48 a share from a loss of $48.7m or 97 cents a share.

Operating revenue for the year improved 30 per cent to $876.5m form $674.9m a year earlier, thanks to sharp increases in foreign film rentals and worldwide home video sales. Operating income in the year fell to $20.1m from $35.4m.

# MAN and Daimler-Benz seek 80% of Spain's Enasa

By Our Financial Staff

MAN Nutzfahrzeuge, the commercial vehicles subsidiary of MAN the West German engineering group, has officially confirmed that it is seeking to take over Enasa, the Spanish state-owned commercial vehicles maker in a consortium with Daimler-Benz, its much bigger West German competitor.

The MAN/Daimler-Benz bid is one of four rival offers to take over Enasa. The German consortium is facing fierce competition from Volvo of Sweden, DAF of the Netherlands and Iveco, the commercial vehicles subsidiary of Fiat of Italy.

Mr Wilfried Lochte, MAN Nutzfahrzeuge chief executive, said that the two German companies were seeking to acquire an 80 per cent stake in Enasa. MAN is leading the consortium and would hold 60 per cent with Daimler-Benz taking 20 per cent. The remaining 20 per cent would be held by INI, the Spanish state holding group.

A decision on the future ownership of Enasa is expected to be announced shortly. Mr Lochte said that the West German Federal Cartel Office has now approved MAN's planned acquisition of the truck operations of Steyr-Daimler-Puch of Austria.

A new company, Steyr Nutzfahrzeuggesellschaft (SNF), will be formed comprising Steyr's truck and parts business and MAN Nutzfahrzeuge will own 80 per cent of SNF.

Mr Lochte said that if the joint offer for Enasa is accepted, MAN would follow a two-brand strategy in Spain, similar to the strategy planned for Austria.

Enasa has a European Community market share of 5 to 6 per cent compared with MAN's share of just under 10 per cent. Enasa's turnover last year was about DM1.5bn, and it produced between 15,000 and 16,000 trucks.

Mr Lochte said that MAN was striving to boost its vehicle deliveries to more than 31,000 in the current 1989-90 business year and increase sales by 10 per cent. The company produced 27,501 vehicles in 1988-1989.

In the first quarter of 1989-90 orders exceeded DM1.1bn with foreign orders accounting for about 40 per cent. Orders for heavy trucks had risen 16 per cent from a year ago. Sales exceeded DM900m.

# Eurocheque in Ecu move

By John Wyles in Rome

BANK representatives from 20 countries participating in the Eurocheque system have decided to set up arrangements allowing users to write cheques denominated in European currency units (Ecus) and also to use their cheque guarantee card in "point of sale" electronic debiting systems.

The biannual assembly of banks from 20 countries issuing Eurocheques agreed at its Rome meeting to request its technical committees to produce operating proposals on both fronts for its next session in Vienna next May. The banks also decided to seek a change in the Eurocheque's constitutional arrangements which would allow policy decisions to be taken on a majority basis instead of unanimously, as is currently required.

Mr Ulrich Weiss, president of Eurocheque International and a board member of Deutsche Bank, said at the weekend that the planned initiatives could come into operation by the end of 1990. Mr Dominque Rambure, of the Istituto Bancario di Torino, said that the Ecu plan "would be an important development because it would extend its use to the private citizen."

# Setback for Imperial Oil

By David Owen in Toronto

THE CANADIAN Competition Tribunal has placed a fresh obstacle in the path of Imperial Oil's US$4.15bn takeover of Texaco Canada by indicating that it will not approve the merger under its current terms.

Though Imperial – a subsidiary of Exxon, the world's largest oil company – has already agreed to sell more than 600 petrol stations and other selected assets in return for permission to proceed with the deal, the tribunal says it wants more done to preserve competition in a number of respects.

Specifically, the body is unhappy about Imperial's undertakings to assure supply for independent petrol stations for a given period after Texaco's prized Nanticoke refinery falls into its hands. It also wants more control over prospective purchasers of the nearly 200 petrol stations and the refinery that are to be spun off in Atlantic Canada.

The merger, Canada's second largest, would create the biggest entity in the Canadian energy sector. The two companies have combined reserves of close to 2.3bn barrels of crude oil. Their crude oil production totals 360,000 barrels per day.

# Philadelphia to extend trade

By Deborah Hargreaves

THE Philadelphia Stock Exchange announced on Friday it will extend its trading day for foreign currency options by a further 6½ hours early next year.

The extension will make Philly's trading day, at 20½ hours, the longest of any US exchange.

Under the plan, the exchange will be open for trading foreign currency options from 10pm until 2.30pm the following day. The exchange's new hours will coincide with afternoon trading in the Far East and Pacific Rim.

# NatWest buys back FRN

By Stephen Fidler, Euromarkets Correspondent

NATIONAL Westminster Bank, which last week announced a sharp increase in its provisions for Third World debt, is to buy back $438m of a $500m perpetual floating rate note it issued in 1984 and finance it with a new undated variable rate note issue which it increased from the original £200m to £350m.

The bank announced in September that it would make a conditional cash offer for the old securities, which count as lower case second-tier capital. The new variable rate notes, issued through Merrill Lynch, are counted under the Bank of England's regulations as more valuable upper-case second tier capital.

The VRNs were have an initial margin of ¾ point over Libor. Because the Libor rate is fixed two days ahead, foreign holders of the note can effect swaps into their domestic currency.

● Barclays Bank made the first perpetual share issue for a British bank in May through Shearson Lehman Hutton, not as stated in the November 7 issue of the paper. The issue was increased in two steps from the original $200m to $316m.

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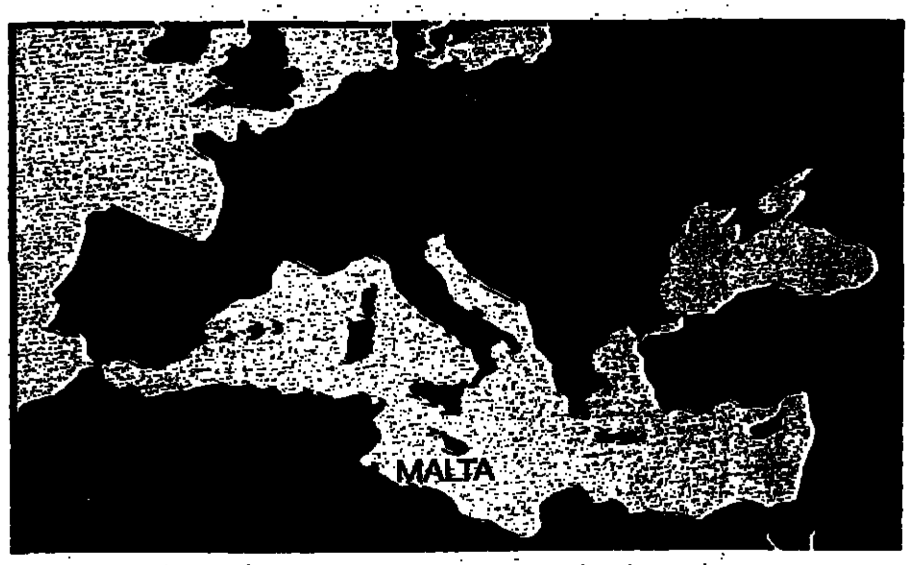


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November 1989

# INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

## Fed springs a pleasant surprise

WALL STREET credit markets have taken a turn for the better with the Treasury getting its auctions back on track and the Federal Reserve delivering a pleasant surprise in the form of a slight easing of monetary policy.

Only the Fed's timing was unexpected. Its decision to *shave the Fed funds rate by a* quarter of a point to around 8½ per cent was consistent with its gradual easing of interest rates as the US economy has slowed down.

It was the fifth easing since June when the Fed funds rate stood at 9¾ per cent.

At this pace the markets might just get another quarter point cut before the end of the year. The most likely moment will be after the release of employment data in early December.

Nobody is expecting the central bank's policy making Federal Open Market Committee (FMOC) to decide on quicker action when it meets tomorrow.

The latest reduction caught the markets unawares because the employment data at the beginning of November seemed *to indicate that the economy* was too strong to allow the Fed to ease. Not only had some 233,000 jobs been created in the previous month but average hourly earnings had risen 0.7 per cent.

Consequently, bond prices fell smartly a week ago Friday as the markets gave up hope of Fed action and turned their attention instead to the increasing difficulties sur*rounding the Treasury's auc*tions.

The Treasury could not sell any more bills, notes and bonds until Congress raised the national debt ceiling from $2,870bn. But the simple procedure was once again hostage to bigger political battles in Washington, leaving the federal Government due to run out of money by last Thursday.

Against this background, the *markets attributed the Fed's* initial easing last Monday to merely technical factors. Further action on Tuesday and heavy hints leaked to some of the press were needed before the markets decided it was a *bona fide* easing of monetary policy.

Bond prices enjoyed a nice little surge on Tuesday as investors got the Fed's message but it was hardly a rally. Bonds barely recovered the ground they had lost late the previous week. "For a trading community that has not done well over *the last two* years this Fed action was an understandable disappointment," said Griggs and Santow, the money market economist.

Market participants were *miffed because they might* have made more money if the Fed had waited until after the Tresaury auctions were over. The beneficiary instead was the Treasury which should be able to complete its current sales of debt this week at slightly lower prices than if the Fed had not eased.

Congress did finally get its act together last week and raised the debt ceiling to $3,120bn just before the Government ran dry. Periodically increasing the borrowing limit *should be a routine legislative* act. Instead it is used as a political football, resulting in temporary shortages of Treasury securities, higher interest rates and higher borrowing costs for the government.

"If this nonsense is ever to be stopped it has to be made clear that it costs a significant amount of money," said Griggs and Santow. In a way it was a shame the Fed eased before the auctions because it made the cost harder to assess this time around, they added.

Theories abounded about *why the Fed chose to ease last* week. Some people suggested Mr Alan Greenspan, the Fed chairman, wanted to act ahead of the FOMC meeting to forestall a full debate between the *committee's hawks* and doves on the desirability of easing monetary policy.

Others said the Fed wanted to counteract the upward effect on interest rates created by the uncertainty over the auctions, particularly when some sectors of the economy are relatively weak and vulnerable to bigger borrowing costs. Manufacturing, for example, is suffering from declining employment, profits and output.

Whatever the reason, the effect of the Fed funds cut was *muted*. For example, banks with the exception of a pair of tiny mavericks have yet to reduce their prime lending rate to 10 per cent from 10½ per cent. Although prime is now two percentage points above Fed funds compared with a five-year average of only 1.65 points, banks are taking wider and more cautious view of their cost of money than just the Fed Funds rate.

In contrast to the sluggish performance of Treasuries last week, the junk and investment grade corporate bond markets were *hopping*. After two months of doom and gloom in the wake of Campeau's financial problems, junk bond prices soared as investors searched for bargains among the better quality issues.

The trigger appeared to be the news that a big junk bond issuer, Southland, the deeply troubled owner of the 7-11 convenience store chain, was easing its financial burdens by selling half its Citgo petrol refining and marketing operations.

One of the best performers among solid junk issues was that 14.7 per cent payment-in-kind convertible debentures of RJR Holdings Capital. Its price rose seven points in the week, recovering some of the 20 points it has lost in the recent rout.

Nobody sees last week's upturn as the beginning of the end of junk bonds' troubles. It might have been only a bear rally for a market still deeply burdened with credibility and liquidity problems. The upturn *in prices might unleash more* selling by investors who failed to get out earlier. The long line of new issues will still have to offer newly risk-averse investors a more credible financial scenario than in the past.

Over in the investment grade arena, lower rates unleased some $1.4bn of new corporate issues and some $1.6bn of asset-backed securities which found eager buyers.

*This week the Treasury mar*ket has to digest the rest of the postponed auction. The first leg, $10bn of three-year notes, sold last week at an average yield of 7.77 per cent, the lowest since February 1988. But overall demand was not great even though Japanese investors bought at least 30 per cent of it.

Today the market faces $10bn of 10-year notes and *$16bn of three and six month* bills. Tomorrow comes the third and final leg, $10bn of 30-year bonds. If the issues find secure homes in investors portfolios rather than a temporary and unstable place in dealers' inventories, then the market can build on the better tone it began to sense at the end of last week.

**Roderick Oram**

### US MONEY MARKET RATES (%)

| | Last Friday | 1 week ago | 4 wks ago | 12-month High | 12-month Low |
|---|---|---|---|---|---|
| Fed Funds (weekly average) | 8.38 | 8.69 | 8.87 | 9.92 | 8.00 |
| Three-month Treasury bills | 7.96 | 8.08 | 7.82 | 9.03 | 7.15 |
| Six-month Treasury bills | 7.97 | 8.08 | 8.02 | 9.03 | 7.37 |
| Three-month prime CDs | 8.45 | 8.60 | 8.80 | 10.35 | 8.18 |
| 30-day Commercial Paper | 8.42 | 8.65 | -8.75 | 9.95 | 8.05 |
| 90-day Commercial Paper | 8.30 | 8.40 | 8.68 | 10.05 | 8.14 |

### US BOND PRICES AND YIELDS (%)

| | Last Fri. | Change on wk | Yield | 1 week ago | 4 wk. ago |
|---|---|---|---|---|---|
| Seven-year Treasury | 100½ | +½ | 7.86 | 7.95 | 8.06 |
| 20-year Treasury | 112⅞ | +⅝ | 7.97 | 8.01 | 8.12 |
| 30-year Treasury | 102½ | +¾ | 7.89 | 7.93 | 8.01 |

Source: Salomon Bros (estimates).

Money supply: In the week ended Octoner 23 seasonal adjusted M1 was unchanged at $789.0bn.

### NRI TOKYO BOND INDEX

| December 1983 = 100 | 9/11/89 | PERFORMANCE INDEX Average yield (%) | Last week | 12 wks ago | 26 wks ago |
|---|---|---|---|---|---|
| Overall | 147.63 | 5.86 | 148.01 | 149.90 | 148.14 |
| Government Bonds | 147.46 | 5.64 | 148.05 | 150.30 | 148.48 |
| Municipal Bonds | 148.90 | 6.08 | 149.26 | 151.58 | 149.98 |
| Govt.-guaranteed Bonds | 150.14 | 6.17 | 150.50 | 152.54 | 150.99 |
| Bank Debentures | 142.15 | 5.94 | 142.14 | 143.47 | 141.70 |
| Corporate Bonds | 150.65 | 5.98 | 150.88 | 151.99 | 150.27 |
| Yen-denom. Foreign Bonds | 156.46 | 6.35 | 157.08 | 156.12 | 153.97 |
| Government 10-year† | 5.43 | | 5.37 | 5.00 | 5.04 |

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

## Conversion offer set for success

THE GILT-EDGED securities market ended Friday on a quiet note after a week which saw prices steadily rise in sympathy with the pound. The Autumn Statement, expected to be put before the Commons on Wednesday by Mr John Major, the Chancellor, will be scrutinised closely by the market for hints on the future course of fiscal policy. Little is expected by way of changes to monetary policy.

* * *

Tomorrow morning the Bank's offer to convert the 9¾ per cent Conversion Stock 2002 into the 9 per cent Treasury Loan 2008 closes. All indica*tions suggest* that the Bank will be successful in getting in most of the £399m of the 2002 in market hands.

The public sector, including the Bank, had £303m of the 2002 stock at the time the Bank announced the proposed conversion on October 20. It would be odd if the public sector did not accept the terms of the Bank's offer and it is generally expected that it will.

In truth, a lot of the conversion has already taken place. Investors have sold the conversion stock to market makers who, if they have not already done so, will pass it on to the Bank. Also, over the past weeks the Bank has been prepared to take in the 2002 stock to facilitate stock switches.

The initial reaction to the Bank's announcement last month was that it was engaging in some housekeeping in the gilt market. "Improving the liquidity of the market" was the general assessment.

While that remains the broad aim, the Bank believes there is a lot that can be done to improve the market's liquidity. The gilt market will never consist of just three stocks (a short, medium and a long); the demands of investors, especially the pension funds for matching their liabilities with like assets means that a plurality of stocks will be needed.

But within that context the question is: does the gilt market need to consist of more than 100 individual conventional and index-linked stocks? The Bank thinks not. Although it is difficult to be precise, about 75 conventional gilts appears preferable.

In his last Budget, Mr Lawson took powers to cancel gilts the Bank held in the issue department. An announcement on gilts cancellations is pending. The market should take the list as an indication of where the Bank thinks future possible conversions exist.

So what chance success for conversions? Pretty good. After the Bank announced the terms of the latest conversion the 2002 stock became interchangeable with the 2006 stock on the basis of the Bank's terms. The question for investors became, do you want *to hold* a tradeable or untradeable stock? Answer: tradeable.

The key point here is the terms offered. As long as they are not disadvantageous to the market there is little reason to be pessimistic, the only caveat being the breadth of ownership. The more widely held a stock is, the greater the likelihood that small lots in safe deposit boxes will add up to something significant and undermine the exercise.

The other consideration is the changing fortunes of the Government's finances, although this is not unambiguously negative for some restructuring of the market. But, as the Bank's Bulletin shows, the scale of the buy-in has fallen significantly.

In the third quarter of this year, the Bank bought in (net of redemptions) £1.2bn. This compares with £3bn in the second quarter and a peak buy-in so far of £3.8bn in the first quarter of this year. (Interestingly, within the buy-in in the third quarter, the Bank actually supplied £15m of long-dated gilts to the market.)

Large scale net buying of stock has probably ended for this financial year. As the Bulletin shows, there is about £1.5bn of T-bills in the private sector that will not be funded (due to the change in the funding rule) and it is difficult to envisage a time in the next six months when the authorities will want to sterilise currency market intervention.

The non-sterilisation of currency market intervention will therefore mean that the Bank over-funds this year, while the change to funding rule means that it will implicitly over-fund by the amount of T-bills held by the non-monetary sector. Both should bolster the tightness of monetary conditions.

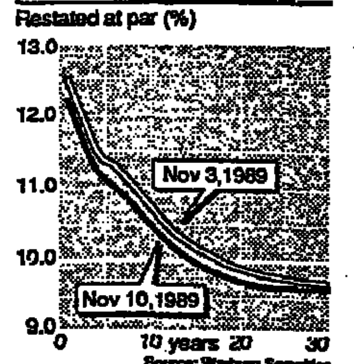
The declining profile of the Bank's buying-in activities exaggerates, but also probably mirrors what is happening to the public finances. Although the Government's Budget surplus is not going to wither overnight the market now thinks the Treasury got the direction of the surplus broadly right in the Budget.

Should this affect the modest restructuring of the gilt market that now seems likely? Probably not. In the context of a balanced Budget there would be need for gilt issues to match redemptions. Conversions and issues of existing stocks would *bolster the current attempts* to improve liquidity, and that has to be in everyone's interest.

**Simon Holberton**

**UK gilts yields**

Restated at par (%)




Source: Warburg Securities

This announcement appears as a matter of record only

September, 1989

**The Kingdom of Denmark**

Lit. 150,000,000,000

12⅜ per cent. Notes due 1993

Issue Price 101.375 per cent.

**Istituto Bancario San Paolo di Torino**

Amsterdam-Rotterdam Bank N.V. — Baltica Bank A/S

Banca Commerciale Italiana — Banca Nazionale del Lavoro

Banco di Napoli — Banco di Roma

Credito Italiano — Italian International Bank plc (Monte dei Paschi di Siena Banking Group)

Kredietbank International Group — Paribas Capital Markets Group

Swiss Bank Corporation Investment Banking — Westdeutsche Landesbank Girozentrale

Akros S.p.A. — Algemene Bank Nederland N.V.

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RDS Capital Markets S.p.A. — Sovardino S.p.A.

Swiss Cantobank Securities Limited — Yasuda Trust Europe Limited

Den Danske Bank — Privatbanken A/S — Copenhagen HandelsBank A/S

SANPAOLO

### FT/AIBD INTERNATIONAL BOND SERVICE

| US DOLLAR STRAIGHTS | Issued | Bid price | Chg on week | Yield |
|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on NOVEMBER 11

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# PAYMENTS IN ECU

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Created within the framework of the EMS, the ECU has, with the support of banks, become a recognized currency of the first magnitude.
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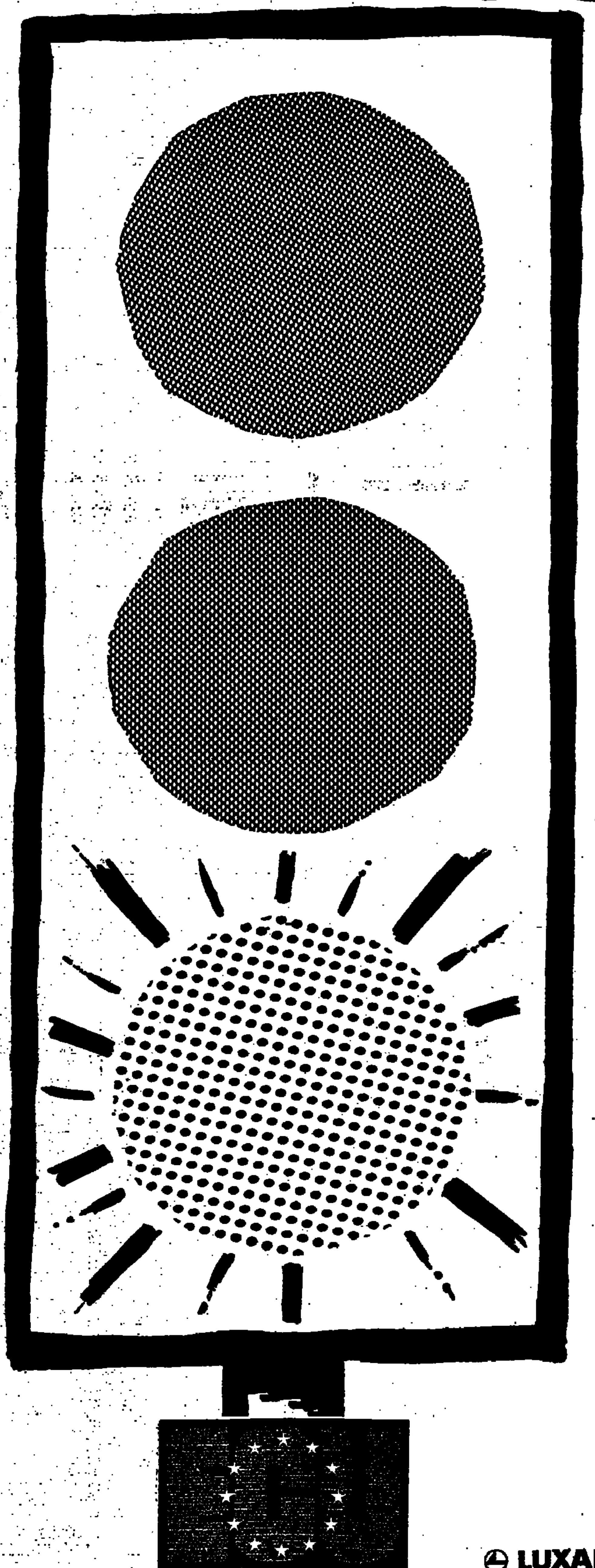

Europeans pay European

**November in Luxembourg: the Month of Europe and the ECU**
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The programme is actively supported by:

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## UK COMPANY NEWS

# Sell-offs in BT efficiency drive

By Hugo Dixon

*BRITISH TELECOM* is considering management buy-outs for several of its peripheral businesses as part of its drive to improve efficiency.

The largest of the businesses is the motor transport division, which operates the biggest fleet of privately owned vehicles in Europe. It owns 58,000, worth nearly £400m on a replacement basis, and employs over 3,000 people.

However, the reprographics division, its in-house printer, will probably be the first business to be spun off in a buy-out.

The National Communications Union, which is opposing the plan, believes a buy-out could happen as early as January. Employees may be offered the chance to buy shares.

But BT denied union claims that a final decision had been taken to proceed with a buy-out for the reprographics side. And it said that a decision on what to do with the motor transport division was even less far advanced.

The NCU said its members felt considerable resentment because it was not being consulted sufficiently enough about the buy-outs. It believed BT should invest more money into the businesses instead of selling them to management.

BT, however, believed that peripheral service businesses would become more entrepeneurial if they were spun off and forced to compete for business in the market-place. While these businesses would still rely on BT for most of their revenue, they would also be free to sell their services to third parties if they were no longer part of the BT group.

Reprographics is responsible for printing BT's circulars, reports, manuals and internal staff directories. Its annual turnover is believed to be nearly £10m, although this may be rather academic since all the sales are internal.

Motor transport is a much more substantial business. As well as owning BT's fleet of vehicles, it runs a network of 320 local workshops and two central repair depots.

# Move to oust AFI chief

By Andrew Hill

THE THREE dissident investors trying to win places on the board of Amalgamated Financial Investments have urged fellow shareholders to oust the existing chairman and one of the other directors.

Mr Rupert Pearce Gould, Mr Richard Wollenberg and Mr Colin Weinberg say shareholders should vote against resolutions to reappoint Mr John Scholes, the chairman, and Mr Elsworth Donnell, a director, at the investment company's annual meeting next Monday.

At an extraordinary meeting immediately after the agm shareholders will vote on the election of the three dissidents.

"We are committed to repairing the damage inflicted on the company over the past two years," the dissidents say in a letter to shareholders.

Mr Scholes, who took over as chairman of the investment company in January, believes their attempt will fail. He is the group's largest shareholder with a 14.7 per cent stake.

"Indications are that the vote will come down on my side. I think their support has been ebbing away over the last few months," he said.

Mr Pearce Gould, Mr Wollenberg and Mr Weinberg first tried to win seats on the board at an egm in August. But Mr Scholes declared the original motions of election invalid and closed the meeting after less than 10 minutes. In their letter to shareholders, the trio question the value of assets owned by the company, in particular investments in Cyprus and a stake in Barbican Holdings, the Third Market industrial holding company.

Mr Scholes commented: "I have always said that these were assets that I would rather not have inherited, because they are hard to sell and they don't generate any income. Having said that, I think there's a reasonable chance that I shall eventually turn them into cash, probably without taking too much of a loss."

# Goode Durrant acquisitions expected

By Ray Bashford

GOODE DURRANT, the industrial and financial management company, is expected this week to announce several acquisitions worth almost £10m.

The purchases will be bolted on to two of the company's existing operations in the hire and sale of portable accommodation and commercial vehicle rental businesses.

Goode Durrant will finance the bulk of the purchases through cash with an issue of shares forming part of the consideration for the largest of the deals.

The company has been examining means of expansion through acquisition for several months after building up a cash pile of more than £20m through disposals of what a new board believed were under-performing assets.

The biggest purchase is of Ravenstock, which sells and rents shipping containers which it has converted for alternative secure storage and temporary office accommodation. The containers are used by local authorities and the construction industry.

Goode Durrant is expected to pay about £4m for the company in addition to an issue of shares to the vendors.

The purchase of three commercial vehicle rental businesses, when coupled with other Goode Durrant operations in the same area, will create a major force in the UK market.

## FT Share Service

The following securities were added to the Share Information Service in Saturday's edition: Barplats Mines (Section: Mines-Diamond & Platinum). Boxmore International (Industrials). Fleming International High Income Inv. Trust Zero Div. Pref. shs. (Investment Trusts). IAWS Group (Foods). Mitsubishi Corporation (Overseas Traders). Nationwide Anglia Building Society 13½% Bonds 3/9/90 and 4.25% Index-Linked 2024 (Loans-Building Societies). River & Mercantile Extra Income Trust (1p shs. & Warrants) (Investment Trusts).

# A break-away from the family ties

## Clay Harris follows the progress of Seaforth, a new venture set up by Maurice Dwek

WHEN A quoted company is taken private in a management *buy-out*, what happens to executives who decide not to stay? To Mr Maurice Dwek this was not an academic question.

Mr Dwek, now 50, spent more than half his life working for Dwek Group, a family-controlled consumer products manufacturer which came to the stock market in 1973 and made its exit 15 years later through a £33.5m buy-out led by his brother Leon.

Dwek Group went private in large part because the post-1987 crash malaise had made it impossible to acquire by issuing shares. But for Mr Dwek, its chairman in succession to his father, the time probably had come for a change anyway.

Mr Tom Forsyth, Dwek Group's former finance director, is better able than his colleague to describe the boardroom dynamics between Mr Dwek and his two brothers. "They were three quite forceful blokes all on the same bridge," says Mr Forsyth, "and the bridge wasn't getting any bigger."

"One morning, I woke up and I had nothing," recalls Mr Dwek, a reference to his plans for the day rather than the £4.8m he had realised from his shareholding in Dwek Group.

Joined by Mr Forsyth, Mr Dwek created Seaforth Investments, a joint venture backed by MIM Britannia-managed funds. In its first year, Seaforth has invested or agreed to invest nearly £20m in two private businesses and two listed companies.

By coincidence, both of the public groups report their interim results today. One is Owen & Robinson, a retail jewellery chain in which Seaforth bought a 25 per cent stake earlier this year and has already begun to direct strategy. The other is Arlen, a manufacturer of electrical accessories in which Seaforth will inject £6.12m in return for a 25 per cent holding if Arlen shareholders approve.

Maurice Dwek (left), one of three forceful brothers who ran Dwek Group, the consumer products manufacturer, with Tom Forsyth, the group's former finance director

On the private side, Seaforth has bought a 51 per cent stake in PHH Leisure, an operator of 40 public houses which is run by Mr Bruce Allen, a former divisional director of Grand Metropolitan. Seaforth is also building up its wholly-owned Inlite Group through the acquisition of a series of small decorative lighting manufacturers.

If no apparent link springs to mind between these disparate activities, there is good reason. Mr Dwek says he learned the pitfalls of creating a mini-conglomerate at his previous group, which lost stock-market allure the more diverse it got.

Mr Dwek wants the value of each investment to stand alone, and never stand at a discount because it is subsumed into a larger entity. The holdings will never have to be unbundled, because they will never be bundled in the first place.

This will be achieved by assuring that joint ownership of each investment is held directly by MIM and Mr Dwek. Seaforth itself – named at Mr Forsyth's behest for a Scottish regiment and for its visionary ring – is being transformed into purely a management company. It will be paid a fee for its services.

Mr Dwek, himself, has put up very little money. Seaforth's investments are funded by long-term lending from MIM. When one is realised, borrowings will be repaid and Mr Dwek and MIM will split the surplus evenly. Mr Forsyth has share options in each of the companies in which Mr Dwek and MIM are invested.

But talk of realising investments is premature. "We're not looking for a quick in and out," says Mr Dwek.

The emphasis is on building long-term value by backing (or finding) the right management for each company. Since Mr Dwek and Mr Forsyth joined Owen & Robinson, for example, they have promoted the managers of a new Scottish subsidiary which was turning over its stock 4½ times a year rather than the barely once a year achieved by the main business.

Owen & Robinson will never be an Asprey or a Tiffany's; indeed, its emphasis on 9K gold and a limited range of inexpensive jewellery takes Mr Gerald Ratner's "impulse buy" strategy even further down market – the average sale is only £20. But by restyling all shops as Gold Centres, and keeping a tight rein on stock, Seaforth believes Owen & Robinson can carve out a satisfactory niche with an eventual chain of 50 outlets. Owen & Robinson will also be Seaforth's vehicle for any additional expansion in retailing.

At Inlite, Seaforth has re-organised manufacturing into two sites in Wales and Oxfordshire, with a third soon joining in Yorkshire, through the acquisition of an operation from Marks and Spencer supplier SR Gent. Inlite sells mainly to DIY "sheds" such as Texas and B&Q and to small independent lighting shops.

Seaforth has brought in Mr Allen Mitson, formerly at Emess (Mr Dwek's acknowledged model in the lighting sector) as Inlite's deputy chairman and chief executive.

At PHH Leisure, it was not management but money that was needed. Seaforth's cash relieved the financial pressure on the heavily geared MBO team and enabled them to take advantage of major brewers' rationalisation of pub networks.

A combination of these factors applies at Arlen. The electrical accessories company needs the injection (through a share subscription at a premium to the market price) to complete a heavy capital investment programme and to acquire smaller competitors. But Mr Leslie Hancock, Arlen's chairman, will step down to a non-executive directorship, making way for the management expertise of Mr Dwek and Mr Forsyth.

See Observer

# New Cavendish improves

IN A year that has seen fundamental changes in its management and its direction, New Cavendish Estates has produced a pre-tax profit of £845,000 for the 12 months ended June 30 1989, compared with £368,000.

Profit was struck after exceptional costs of £241,000, being mainly termination payment to a former director. There was an extraordinary loss of £2.35m (profit £1.03m) which led to an adverse attributable balance of £1.78m (profit £1.2m).

That loss represented the deficit on sale of Northwick Park residential development £2.98m, less profit on sale of investment properties £100,000 and tax credit £524,000. Earnings were 4.06p (1.38p) but there is no dividend.

# Comac loss cut to £9,000

INCREASED REVENUE achieved by the UK and overseas divisions enabled Comac to almost break even in the first half of 1989.

This USM-quoted computer staff bureau reduced its pre-tax loss from a restated £137,000 to £9,000. Turnover rose to £5.1m (£3.96m) and generated an operating profit of £48,000 (loss £105,000).

Comac joined the Third Market in 1987 but was hit by the slump in demand for computer staff after the October stock market crash, and ran into a loss of £489,000 for 1988.

In February this year there was a reconstruction and management changes, with Hillsdown Investment Trust taking a 43 per cent interest. Later Comac joined the USM.

## BOARD MEETINGS

TODAY

Interims- Arlen, Cullen, Erostin, Owen & Robinson, Stratton Investment Trust.

Finals- BOC, Invicta Sound, Scottish Cities Investment Trust, Stanhope Properties.

FUTURE DATES

Interims-

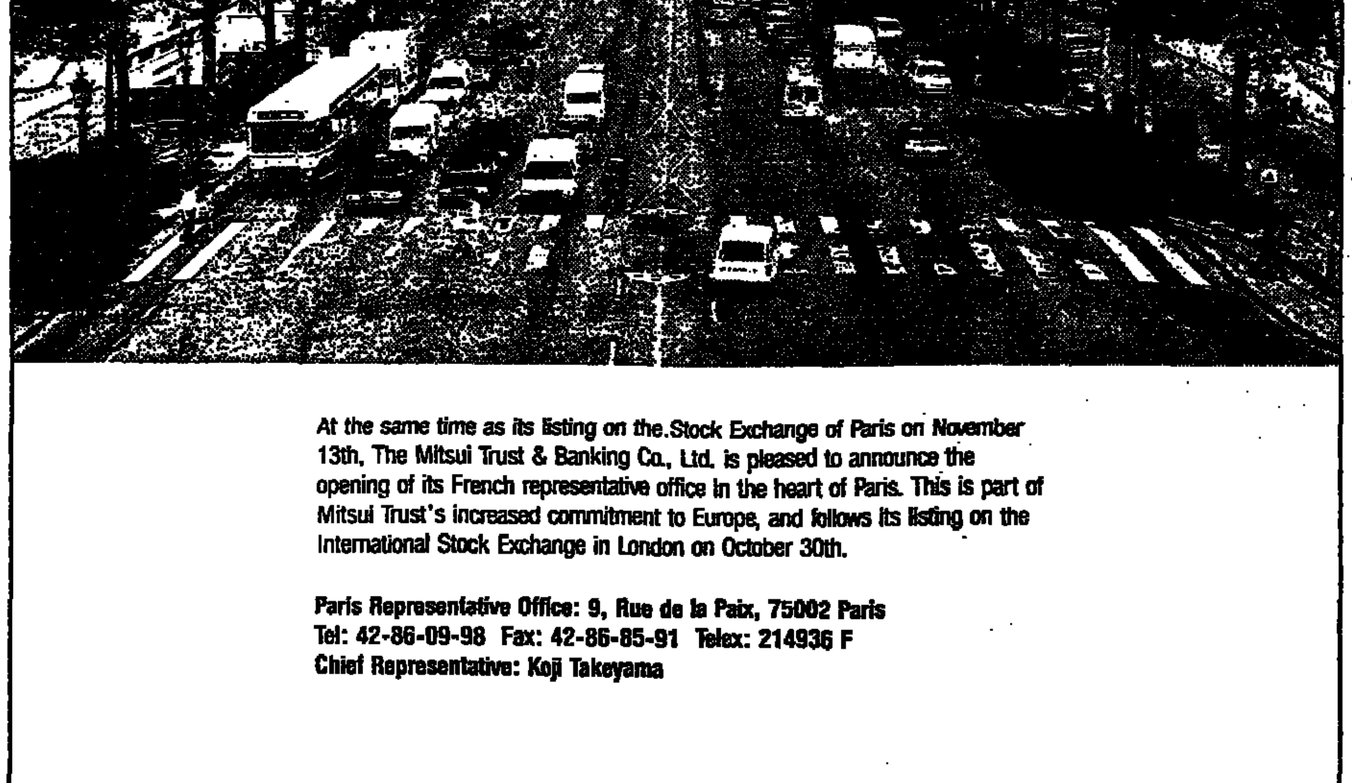
| | |
|---|---|
| Electrocomponents | Nov. 15 |
| Goldberg (A) & Sons | Nov. 17 |
| Govett American Endeavour | Nov. 17 |
| Harrisons Malaysian Plant. | Nov. 22 |
| Readicut International | Nov. 21 |
| Shires Investment | Nov. 16 |
| Vista Entertainments | Nov. 20 |
| Waddington (John) | Nov. 17 |
| Whitbread & Co | Nov. 21 |

Finals-

| | |
|---|---|
| Carr's Milling Industries | Dec. 7 |
| Eldridge Pope & Co | Dec. 5 |
| Glasgow Income Trust | Nov. 20 |


# BONJOUR PARIS!

**Mitsui Trust is open for business in France from November 13th**



At the same time as its listing on the Stock Exchange of Paris on November 13th, The Mitsui Trust & Banking Co., Ltd. is pleased to announce the opening of its French representative office in the heart of Paris. This is part of Mitsui Trust's increased commitment to Europe, and follows its listing on the International Stock Exchange in London on October 30th.

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Cazenove & Co., 12 Tokenhouse Yard, London, EC2R 7AN.

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and, for collection only, up to and including 14th November, 1989 from–

The Company Announcements Office, The Stock Exchange, 46-50 Finsbury Square, London, EC2.

13th November, 1989

## YORKSHIRE BUILDING SOCIETY

£100,000,000
Floating Rate Notes due 1994

In accordance with the terms and conditions of the Notes, notice is hereby given that for the three months interest Period from (and including) 10th November, 1989 to (but excluding) 12th February, 1990, the Notes will carry a rate of interest of 15.1625 per cent. per annum. The relevant Interest Payment Date will be 12th February, 1990 and the Coupon Amount per £50,000 Note will be £1,952.43.

Hambros Bank Limited
Agent Bank

Notice to Holders of
NIPPON MEAT PACKERS, INC.
(the "Company") Warrants to Subscribe for Shares of Common Stock of the Company (the "Shares"), issued in conjunction with the issues of
US$60,000,000 2⅞%
Guaranteed Notes 1991
and
US$ 100,000,000 3% Notes 1992

In respect of the above warrants, notice is hereby given as follows:
On 9th November, 1989, the Company issued US$ 200,000,000 3⅛% Notes 1993 with Warrants, which are entitled to subscribe for Shares at the Subscription Price of Yen 2,296 per Share.

As a result of the above issue of Notes with Warrants, the Subscription Prices of the captioned warrants were adjusted, pursuant to Clause 3 of the Instruments, as follows:

1. Warrants issued with 2⅞% Guaranteed Notes 1991:
   Subscription price:
   Before adjustment Yen 1,364
   After adjustment Yen 1,362·20
2. Warrants issued with 3% Notes 1992:
   Subscription Price:
   Before adjustment Yen 2,266
   After adjustment Yen 2,263·00
3. The said adjustments of the Subscription Prices became effective from 10th November, 1989 (Japan time).

Nippon Meat Packers, Inc.
6-14, Minami-Honmachi 3-chome
Chuo-ku, Osaka, Japan.
13th November, 1989

## FINLAND

The Financial Times proposes to publish this survey on:

18TH DECEMBER 1989

For a full editorial synopsis and advertisement details, please contact:

CHRIS SCHAANNING OR GILLIAN KING
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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

## UNILEVER N.V.

DIVIDEND ON DUTCH CERTIFICATES OF Fl.1,000, Fl.100, Fl.20 and Fl.4 FOR ORDINARY CAPITAL ISSUED BY
N.V. NEDERLANDSCH ADMINISTRATIE- EN TRUSTKANTOOR

Interim dividend payments of Fl.1.37 per Fl.4 ordinary capital in respect of the year 1989 will be made on or after 21st December 1989 against surrender of Coupon No 5. Coupons may be encashed through one of the paying agents in the Netherlands or through Midland Bank plc at the address below; in the latter case they must be listed on the special form, obtainable from the Bank, which contains a declaration that the certificates do not belong to a Netherlands resident.

DUTCH DIVIDEND TAX relief is given by certain Tax Conventions concluded by the Netherlands. A resident of a convention country will, generally, be liable to Dutch dividend tax at only 15% provided the appropriate Dutch exemption form is submitted. No form is required from UK residents holding "K" certificates if the dividends are claimed from Midland Bank plc within six months from the above date. If the certificates are owned by a UK resident and are effectively connected with a business carried on through a permanent establishment in the Netherlands, Dutch dividend tax at 25% will be deducted and will be allowed as credit against Dutch tax payable on the profits of the establishment. Dutch dividend tax on this dividend is Fl.0.3425 at 25% and Fl.0.2055 at 15%. The proceeds from the encashment of coupons through a paying agent in the Netherlands will be credited to a convertible florins account with a bank or broker in the Netherlands.

UK INCOME TAX at the reduced rate of 10% on the gross amount will be deducted from payments made to UK residents instead of at the basic rate of 25%. This represents a provisional allowance of credit at the rate of 15% for the Dutch dividend tax already withheld. No UK income tax will be deducted from payments to non-UK residents who submit an Inland Revenue Affidavit of non-residence in the UK.

A statement of the procedure for claiming relief from Dutch dividend tax and for the encashment of coupons, including names of paying agents and convention countries, can be obtained from Midland Bank plc at the address below.

N.V. NEDERLANDSCH ADMINISTRATIE- EN TRUSTKANTOOR
London Transfer Office, Midland Bank plc, Stock Exchange Services Department, Mariner House, Pepys Street, London EC3N 4DA.
10th November 1989.

## Citicorp Banking Corporation
## U.S.$250,000,000

Guaranteed Floating Rate Subordinated Capital Notes
Due July 10, 1997
Unconditionally Guaranteed on a Subordinated Basis by
CITICORP

Notice is hereby given that the Rate of Interest has been fixed at 8.625% and that the interest payable on the relevant Interest Payment Date, December 13, 1989 against Coupon No. 16 in respect of US$10,000 nominal of the Notes will be US$71.88.

November 13, 1989 London
By: Citibank, N.A. (CSSI Dept.), Agent Bank . CITIBANK

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|---|---|
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| Dec. 2227/2237 +24 | Dec. 2615/2627 +11 |

5pm Prices. Change from previous 9pm close

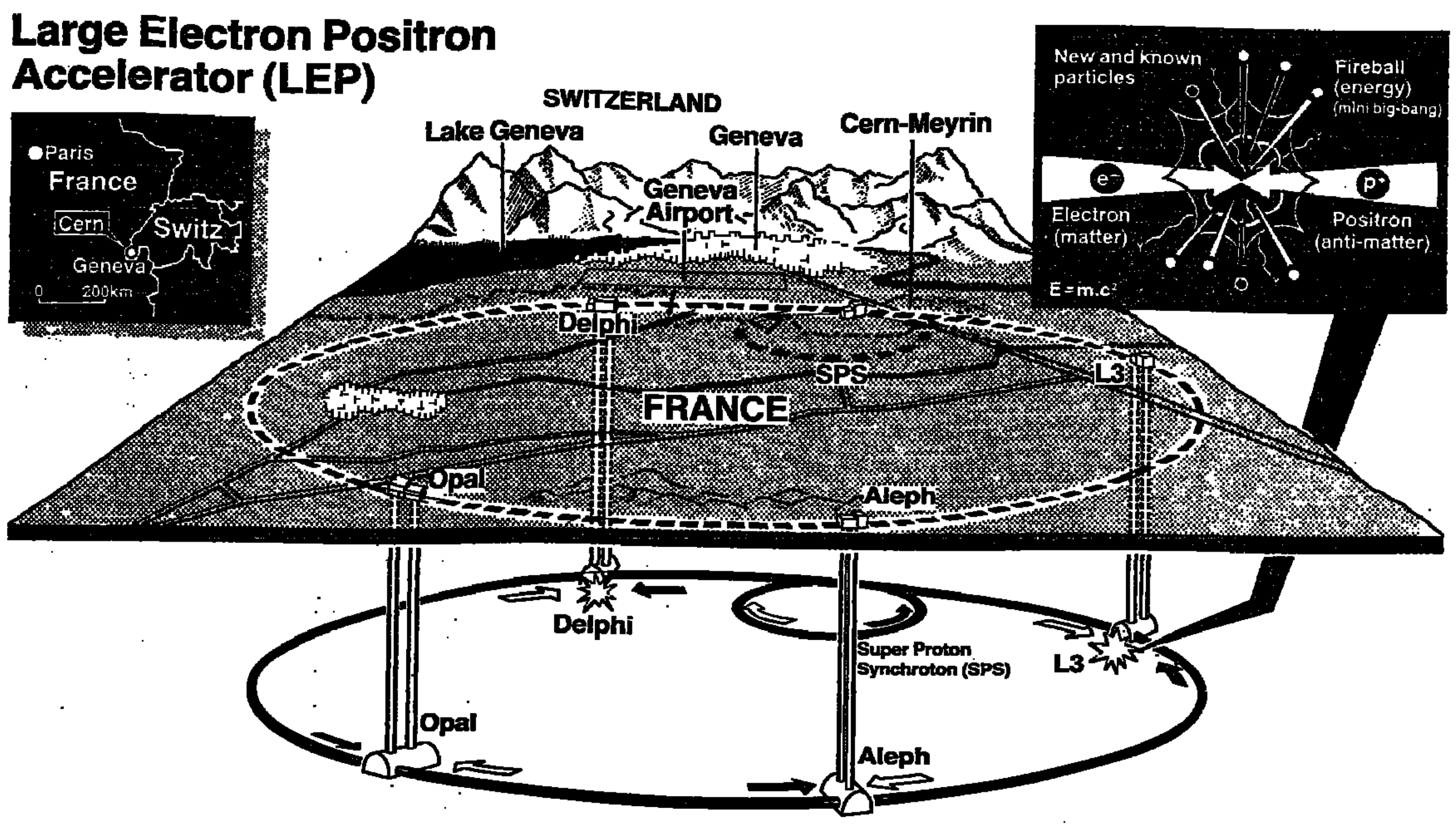

## FINANCIAL TIMES STOCK INDICES

| | Nov 10 | Nov 9 | Nov 8 | Nov 7 | Nov 6 | Nov 3 | 1989 High | 1989 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 84.47 | 84.63 | 84.37 | 84.06 | 84.02 | 83.75 | 89.29 | 83.75 | 127.4 | 49.18 |
| Fixed Interest | 93.78 | 93.73 | 93.61 | 93.55 | 93.31 | 93.29 | 99.59 | 93.20 | 105.4 | 50.53 |
| Ordinary | 1773.0 | 1764.3 | 1774.2 | 1753.8 | 1747.0 | 1746.4 | 2008.6 | 1447.8 | 2008.6 | 49.4 |
| Gold Mines | 259.3 | 260.6 | 256.8 | 245.2 | 234.2 | 231.5 | 260.6 | 154.7 | 734.7 | 43.5 |
| FT-Act All Share | 1114.66 | 1108.87 | 1109.88 | 1097.59 | 1094.19 | 1094.54 | 1225.80 | 921.22 | 1238.57 | 61.92 |
| FT-SE 100 | 2216.7 | 2201.7 | 2203.8 | 2178.2 | 2169.6 | 2173.1 | 2426.0 | 1782.8 | 2443.4 | 986.9 |

FINANCIAL TIMES SURVEY

The world's most powerful particle accelerator – 'atom-smasher' – will be inaugurated at Cern, the European Laboratory for Particle Physics, near Geneva, today. LEP equips science with its biggest instrument yet, writes **David Fishlock**, Science Editor

## Large Electron Positron Accelerator (LEP)




Contents



Cover Illustration: David Worth

# Understanding the Big Bang

# LEP and Big Physics

IT IS not easy to grasp the realities of a machine that one needs more than six hours to walk around, that straddles two countries, and is buried from sight 100 metres below fields on which cranes are now gathering for their annual migration to Africa. From no point in a tunnel as long as the Circle Line on London's underground railway can one see more than a small segment.

The scientists – "troglodytes, that's what we are", said one contentedly – toil in four great caverns, 7 km apart round the tunnel, large enough to accommodate thousands of tonnes of equipment needed to record what happens when beams collide.

The busy control room, at the surface, offers no better perspective. "It's like playing a video game," ventures Mr Steve Myers, who is bringing the mammoth up to full energy for the physicists

The Large Electron Positron Collider (LEP) is the latest and largest of a family of particle accelerators – atom-smashers – that began in California with the first cyclotron, only a few centimetres around, in the 1930s. LEP is 27 km in circumference and has cost SFr 1.8bn (£700m).

It has been built by Cern, the European Organisation for Particle Physics (the initials once stood for Conseil Europeen pour la Recherche Nucleaire); the latest in a series of accelerators of increasing energy constructed at Meyrin near Geneva since the late-1950s. Using these expensive research tools, Cern has overtaken the US and made itself the undisputed world leader in trying to understand the fundamental structure and origins of matter.

How this has been done is a remarkable example of international collaboration and cohesion within one profession. Professor Herwig Schopper from West Germany, Cern's director-general for most of the time LEP was being constructed, speaks of the "Cern spirit" created by its founding fathers: "a competitive but fair spirit, under which scientific and technical criteria are considered more important than national or personal interests." Cern spirit embraces respect for the background and traditions of people from different countries and cultures, he says.

Professor Carlo Rubbia, the ebullient Italian who succeeded Schopper last year, warns of the dangers of exaggerating the natural rivalry between different laboratories. Cern was founded, he says, "on the idea of extensive international co-operation fostered by collaboration rather than by competition."

Prof Rubbia brings to Cern a very different management style from previous directors such as Prof Schopper and Britain's Sir John Adams. He is passionate and unpredictable, difficult for top management to work with, but loved by Cern's staff who appreciate being led by an extrovert who is also considered a genius.

Cern had to fight hard for the funds for LEP. Its European member-states, now numbering 14, although highly approving of the "Cern spirit", could stomach the cost of LEP only by stipulating that it must be funded out of Cern's budget, not by an extra grant. For Cern it meant proceeding more slowly and closing down older facilities to economise.

Management also made greater efforts to recruit physics teams outside the member-states which were willing to help defray the cost of the huge particle detectors, accounting for more than a quarter of LEP's total cost. These detectors are the "eyes" through which the physicists record what happens when particles collide.

Sir John once likened atom-smashing to trying to understand how a watch works by hanging it in a darkroom and hurling cricket balls at it. It was an apt analogy when the physicists were trying to piece together a picture of a big, complex sub-atomic particle like a proton. Twenty years on they are chasing far simpler but ephemeral fragments. LEP was designed for the close observation of Z and W particles, rarities whose discovery earned a Nobel prize for Prof Rubbia in 1984.

It is intended to manufacture these particles by the million, much like a production line. For the next few years it will focus on making the Z particle – one already known to interact in interesting ways with everything else.

Until this decade particle physicists made little effort to explain what they were up to, or why they were so excited about it, beyond convincing their peers in other sciences that they were doing good science. But other areas of science were becoming increasingly expensive to practice, with their needs for the latest data processing equipment, satellites, etc. They were no longer willing to see a lion's share of national science budgets go to one area of physics. Neither were governments prepared to sanction big increases in science spending for everyone.

Today, there is a big commitment among physicists to explain their excitement both to people generally, through the media, and to schoolchildren in particular, says Professor George Kalmus. As head of particle physics at the Science and Engineering research Council's Rutherford and Appleton Laboratory, Prof Kalmus is Britain's top link with Cern.

Schoolchildren find particle physics "extremely appealing" – on a par with astronomy – he claims. The awesome scale of the engineering needed to investigate sub-atomic fragments is an undoubted attraction to boys. But when he asked a post-graduate student recently what had drawn her to particle physics, she said "Frank Close came to our school", naming a colleague of Mr Kalmus's with a particular penchant for explaining the science.

How the physicists get the accelerators built is a remarkable sociology of its own. When once I suggested to Sir John Adams, master-builder of instruments for big physics, that his talents might be used to build Britain's nuclear power stations, he said no. He would not know how to get the commitment he could count on from everyone engaged in a big-physics project.

What the physicist wants is the most accurate and reliable machine he can devise at any given time for generating multiple collisions and measuring the consequences. Currently, the physicist has a theory – called the Standard Model – and he wants to refine it. It is not a very satisfactory model because it involves too many arbitrary constraints, Prof Kalmus explains. "We don't like the model very much but it's the only game in town."

To refine – or refute – the Standard Model, the physicist needs the deluge of data LEP is expected to generate, first for Z particles, and later at higher energy for W particles. Both have been rarities in experiments with smaller accelerators.

To get the instrument they want, the Cern physicists have devised a rigorous system of specification and quality control. It starts, one Cern physicist explains, with "some of the best accelerator designers in the world, who know exactly what they want to build." It continues with carefully written specifications – "written by engineers, not consultants or lawyers" – and careful investigations to make sure that those who bid for Cern contracts really can do what is required. Often the technology is at the brink of what is possible, but Cern's own research resources stand ready to help. "Cern is a hard master," he acknowledges.

Some companies take great pride in being a Cern contractor, willing and able to meet its strenuous demands. For them, the "spin-off" is rarely in further sales of the same products, for Cern's requirements are too often unique. The spin-off for those working closely with Cern is in acquiring new "enabling technology" that can upgrade all future products, while Cern itself serves as a particularly prestigious showcase.

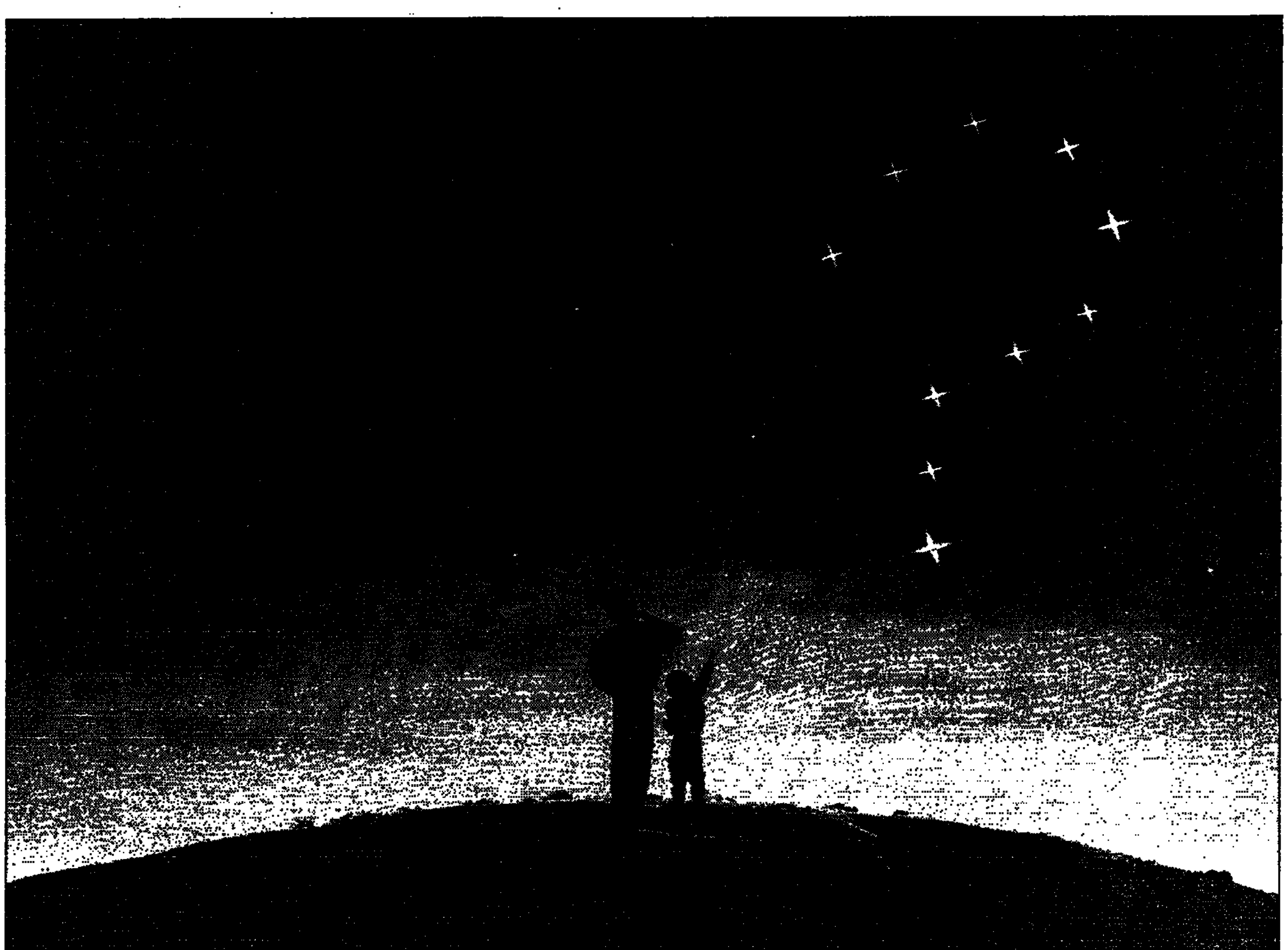
For society more widely, there has been another spin-off from particle physics, through the increasing use of accelerators in medicine, manufacture, and other parts of science such as chemistry and medical science. Europe, for example, has several cyclotrons devoted to the treatment of cancer patients with neutron beams.

Particle physicists once tried to sell themselves to their governments on the grounds that they were on the brink of releasing a new, still more potent source of energy. As the late Luis Alvarez, a leading figure on post-war particle physics, once said: "Right after the war we had a blank cheque from the military . . ." This has long been history. Mr Robert Wilson, a leading US accelerator designer, asked by a Congressional inquiry what his proposal for a new accelerator would do for the defence of the US, said "nothing – but it will help make the US worth defending."

Why is this so? The honest answer, says Prof Kalmus, is cultural – "because we are curious, because we want to know what the world is made up of." Such knowledge does not remain the privileged possession of the few but trickles down to become part of the general philosophy of life.

Take the 19th century concept of quantum mechanics, says Prof Kalmus. Very few scientists understood it at first. By today's criteria, the pioneers would have stood scant chance of getting a research grant from the Science and Engineering Research Council. Yet today the entire semiconductor industry is founded on an understanding of quantum mechanics.

CERN and Hewlett-Packard. Together we're working on it.



The CERN project to explore the fundamental structure of our world and the universe is possibly the most important ever.

The Large Electron Positron Collider (LEP), the biggest machine man has ever built, alone cost 1.2 billion Swiss francs.

To build it CERN has gathered together the world's finest physicists from fourteen European member states.

Naturally, they also need to employ the finest computers. They chose Hewlett-Packard's Apollo series of superworkstations.

These are among the fastest and most powerful workstations ever built. They need to be to handle the vast amount of data the CERN accelerator generates.

We are also helping CERN develop the link to the workstations from the IBM* mainframe through which data can be transferred at several times the speed of normal channel connection.

If we can help in answering the greatest question of them all, why don't you involve us with questions you might have?

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## Wit and wisdom in physics

HIGH-ENERGY physicists, although engaged in an esoteric intellectual exercise, are also famed for a sense of fun.

Dr John Polkinghorne, president of Queen's College, Cambridge, once involved in the politics of European physics, makes the point well with his pyramid story in a new book on high-energy physics.*

"...It started in 1962 at Geneva 11 [conference] with the reproduction of a New Yorker cartoon. Two archaeologists are looking at a tiny pyramid poking *out of the sand.*

"One says to the other, 'this could be the discovery of the century — depending, of course, on how far down it goes.'

"The application to high-energy physics needs no elaboration. In 1963, at a conference at Stanford...the cartoon made a re-appearance with a new caption.

"This time it read: 'If this is what I think it is, let's cover it up and forget it.' At Dubna 12 [conference] Salam...showed a large pyramid balanced on its apex. The caption read: 'I hope this structure holds till the next conference.'"

* *Rochester Roundabout: the story of high energy physics, Longman, 1989.*

**David Fishlock**

**David Fishlock** on how the 'atom-smasher' is run

# Managing the mammoth

*"This machine is just a model for a bigger one, of course. That's the future road of physics, as I hope you'll all endorse." - Arthur Roberts, US physicist, 1946.*

"We provide a service to those guys — they get the Nobel Prizes," said Mr Steve Myers cheerfully in the control room of LEP. "Those guys" are the teams associated with

**'It's the greatest machine that's ever been built. There's never been a machine one's so sure will do interesting physics'**

LEP's four huge detectors, located in caverns at equal intervals round the 27 km tunnel. Two of Cern's physicists have already won Nobel prizes with services this Ulsterman has helped to provide for the past two decades. Now he is responsible for fine-tuning LEP for its project director, Mr Emilio Picasso.

At the end of the year, when Mr Picasso retires, Mr Myers becomes deputy to Mr Lyndon Evans, as leader of the new SPS-LEP division of Cern.

Cern's accelerators have been called "particle production factories." Their managers are required to generate beams at as high an energy as they can manage, and fractionate them to meet the various needs of customers — the detector teams. High-energy physicists tend to work round the clock, which sometimes brings them into conflict with the authorities by expecting support staff to work overtime.

LEP's beam is presently available for physics about 50 per cent of the time, about half its design energy. Mr Myers's first task is to get beam availability up. "It's usually the interlocks that stop you running." Gradually his team will gain enough confidence to relax some of the need for security precautions.

As engineer in charge of Cern's Intersecting Storage Rings in the 1970s, the world's biggest accelerator of its time, he achieved about 90 per cent availability. But his new beam requires the full co-operation of no fewer than five accelerators, feeding each other in series. For LEP, he says, "70 per cent is a realistic target that we may achieve next year."

"LEP was well built, no doubt about it," says Dr John Thresher, one of Cern's two directors of research and a member of the LEP Machine Advisory Board. One of the primary purposes of LEP is to study the Z particle, only rarely sighted with the previous generation of accelerators. Each of LEP's four detectors saw Z particles on the pilot physics run in mid-August. Within three weeks they had spotted 1,100.

By October, Cern was reporting "what we felt were very important physics results," says Dr Thresher. It was still only three months since they first switched on. Often new accelerators take a year or two before they are useful to the experimenters. Dr Thresher predicts LEP will have recorded as many as 200,000 Z particles by the end of this year,

Nevertheless, LEP has a long way to go before it achieves peak energy and maximum

**One of LEP's primary purposes is to study the Z particle, only rarely sighted with the previous generation of accelerators**

usefulness. As Dr John Polkinghorne, the Cambridge physicist and president of Queen's College, puts it in a new book on high-energy physics, "penetrating power costs energy. The deeper one wishes to look inside a proton, the faster one's projectile must be moving to get that far."

LEP already needs more energy to accelerate its beams than any other accelerator, some 46 megawatts. But to reach its design energy of double the present value, it will need about 200 MW — enough to power a small town. This is because so much of the energy is dissipated in a by-product called synchrotron radiation, annoying to the particle physicist but recognised increasingly as a valuable tool for penetrating other areas of science and technology. Synchrotron radiation is rather literally a "spin-off" from particle physics and accelerators are now designed specifically to generate it.

Synchtrotron radiation is also the reason for LEP's immense diameter. The LEP designers chose 100 giga electron volts (GeV) as an energy above the threshold at which pairs of W particles can be produced, around 81-82 GeV. For comparison, LEP's previous accelerator, the Super Proton Synchrotron — with which both Z and W particles were discovered in the early-1980s — is only 20 GeV. The SPS is now being used as the injector for LEP, although it can still be used for its own proton experiments.

But LEP needs a major modification before it can reach 100 GeV. Its beams of electrons and positrons, following curved paths, throw off synchrotron radiation at a rate that increases rapidly with rising beam energy. At half its design energy, LEP loses some 400 MeV per turn of the beam, and this energy is fed back into the beam by the associated radio-frequency accelerating system. At present this system consists of 128 copper radio-frequency cavities.

But at 100 GeV, the energy loss would be a staggering 3,264 MeV per turn. A more efficient radio frequency technology is needed. The copper cavities must be replaced by superconducting cavities. Cern has been developing such a cavity, of niobium operating in liquid helium, over the past 10 years. It has been tested in the SPS and four have already been installed in LEP. By the end of 1991 the physicists hope to have enough superconducting cavities installed to achieve 67 GeV. By 1993, LEP should have replaced all the copper cavities and be up to its full design energy.

*Thus the Z particle is likely* to be the primary research topic for the first half of the 1990s, and the W for the later 1990s.

"It's the greatest machine that's ever been built", claims Dr Thresher. "There's never been a machine one's so sure will do interesting physics."

Even so, Cern physicists have already begun to talk of *the model that may succeed* LEP. They believe that by replacing the magnets that bend its beams with more powerful superconducting magnets, they can double its energy again, to 200 GeV. They call their concept the Large Hadron Collider. They believe it will cost as much to engineer as the present accelerator, another SFr 1.2bn or so.

Breakthrough: Carlo Rubbia, Cern's director (third left), Herwig Schopper, his predecessor (fifth left) and Steve Myers (front right) in LEP's control room when the beam first circulated in July

**Clive Cookson** on how LEP took shape

# Engineering feat the result of an international effort

BEFORE LEP had generated any scientific results, Cern was savouring its success as one of Europe's largest engineering projects, completed on time (six years from the start of excavation) and to budget (SFr 1.2bn).

The Cern management team has co-ordinated the activities of a multinational army of contractors supplying equipment, materials and services. More than 500 companies were involved, with many hundreds more on subcontracts.

The complexity of the project is illustrated by the manufacturing process for just one type of component, the dipole vacuum chamber.

These chambers were extruded from aluminium alloy in Germany, moved to Austria for welding the various fittings and flanges, shipped back to *Germany to have lead cladding* added and finally on to Cern for testing and final assembly.

Two years of intensive planning had preceded the beginning of civil engineering work in September 1983. Cern negotiated with potential suppliers and institutional partners around the world to assemble the best possible project team to meet LEP's exacting requirements.

In many cases new materials and components had to be developed and prototypes built. Computer-aided design tools were used extensively.

"Challenging physics research of this kind inevitably

**'We found ourselves working at the frontiers of development in electronics, computing, vacuum technology, materials science and many other specific fields of activity'**

generates new technologies which will eventually have applications in other fields," says Professor Emilio Picasso, LEP project director.

"We found ourselves working at the frontiers of development in electronics, computing, vacuum technology, materials science and many other specific fields of activity."

Cern has set up an extremely sophisticated computing infrastructure to analyse the millions of collisions that will take place in LEP and its four gigantic particle detectors. A Cray supercomputer plus an array of IBM mainframes, DEC *minicomputers and Apollo* workstations is processing a stream of data that will quickly run into millions of megabytes.

Excavation of the 27 km ring — as big as the Circle Line on the London Underground — involved digging out 1.4m cubic metres of earth and rock and pouring in 330,000 cu m of concrete. Then construction required 6,600 km of cabling and enough steel to build the Eiffel Tower several times over.

More than 50,000 individually recorded items of equipment were installed during the fitting out process, from the microscopic to the massive, including the world's largest magnet, weighing 7,500 tonnes. An *overhead monorail provides* transport round the ring.

LEP was built next to Cern's existing accelerators so that these could be used to feed particles into the ring. But the siting caused geological problems, which the engineers solved by tilting the ring slightly.

It is deepest — 150 m beneath the ground — under

**The Cern management team has co-ordinated the activities of a multinational army of contractors supplying equipment, materials and services. More than 500 companies were involved**

the built-up areas near Geneva airport and closest to the surface where it approaches the hard rock of the Jura mountains.

The entire complex has been engineered to exceptional tolerances. The 3,831 magnets, which guide electrons and positrons around the ring, and 128 "cavities", which accelerate the beams with radio-frequency power, are positioned to an accuracy of 0.1 mm.

*The* electron and positron beams inevitably lose some energy (through the emission of synchrotron radiation) as they are bent round the ring. To minimise these losses a very large number of relatively weak dipole magnets are used to guide *LEP's* beams. With about 3,000 such magnets, each six metres long, Cern has saved a lot of money by using an ingenious new design; instead of the traditional all-steel core, the magnets have steel sheets spaced in concrete.

The beams travel round the ring inside an aluminium tube, which has to be held at a very high vacuum to prevent collisions with stray molecules knocking the particles off course. An electron could travel *round LEP for 3,000bn* km or one third of a light-year before hitting a gas molecule.


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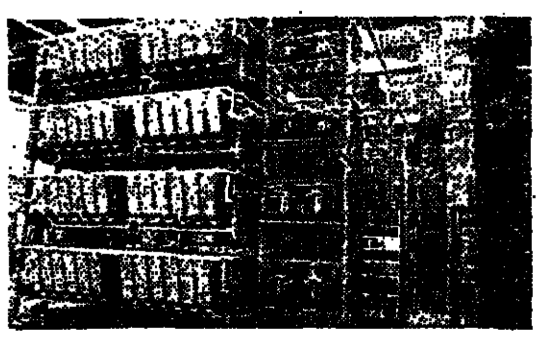
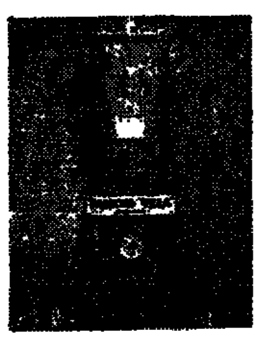
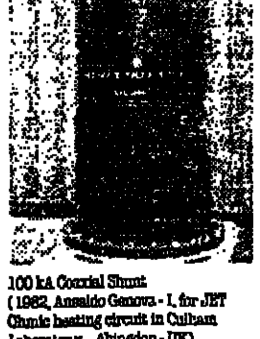


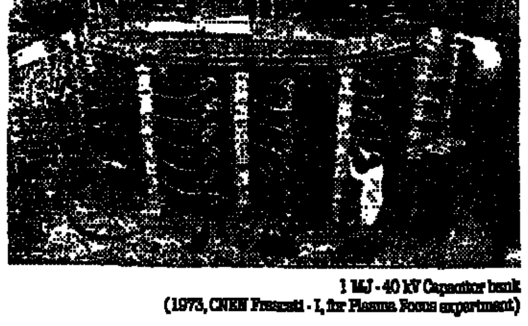
4.8 MJ - 7 kV Capacitor bank system
(1988, ENEA Frascati - I, for RFX - Toroidal field power supply in Padova - I)



160 kV - 15 mA SF6 HV DC Generator
(1987, CERN Geneva - CH, for LEP Beam Separation System)



100 kA Coaxial Shunt
(1982, Ansaldo Genova - I, for JET Ohmic heating circuit in Culham Laboratory, Abingdon - UK)



1 MJ - 40 kV Capacitor bank
(1973, CNEN Frascati - I, for Plasma Focus experiment)

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Cern is breaking new ground, writes **Clive Cookson**

# The search for a 'grand theory for everything'

LESS than three months after electrons and positrons first smashed together in LEP, the world's largest scientific instrument has helped to establish one of the most important discoveries in the history of particle physics: that three families of subatomic particle make up all matter in the universe.

*The primary scientific purpose* of LEP is to enable physicists to make sense of the apparent profusion of subatomic particles and forces, organise them into families and ultimately formulate a "grand theory of everything" — a theoretical framework for understanding the origins and development of the universe.

"Particle accelerators are to physicists what telescopes and space probes are to astronomers," says Professor Carlo Rubbia, director general of Cern. "LEP will allow us to recreate on a new scale the highly unstable forms of matter which existed during the first few instants of the universe 15bn years ago."

The discovery that elementary particles are grouped into just three families is an important step towards making sense of the universe. However Cern's announcement of that

**The first two among LEP's many experimental aims have been achieved quickly; it is likely to take longer to achieve other ambitions**

result on October 13 was pre-empted by a news conference held the previous day at the Stanford Linear Accelerator Centre (Slac) in California.

Slac scientists had reached the same conclusion, using their own smaller electron-positron collider, but they had less data and could not make the statement with as much scientific confidence as their Cern rivals. *The probability of there* being more than three particle families was about one in 25 according to the Slac data and one in 1,000 according to the Cern data.

The timing of last month's announcements generated an unseemly squabble between the European and American groups — "like gangs of children in a school playground" commented one Belgian observer — which rather overshadowed the scientific significance of the results.

But the row has now been patched up with self-righteous statements about the importance of international collaboration and suggestions that the media were to blame for exaggerating the rivalry and hostility.

Although cosmologists have suspected for some time, on the basis of astronomical observations, that there are no more than three families of elementary particle, confirmation of this will increase their confidence in developing theories about the development of the universe.

It will also help theoretical physicists to extend their "standard model" of particles *and forces.*

There are two categories of particle — quarks and leptons — within each of the three families. Both quarks and leptons come in pairs.

All matter which we encounter on earth is made up of particles from the first family. The "up" and "down" quarks combine to form the familiar building blocks of atomic nuclei — neutrons (two down and one up) and protons (two up and one down) — and these in turn combine with electrons to make atoms.

Neutrinos are ghostly particles with no electric charge and little or no mass; they are very difficult to detect but they play a crucial role in the development of the universe. The other two families consist of far heavier and more energetic particles. They do not normally exist in the gentle conditions here on earth but are created in the more violent parts of the universe (such as exploding stars) — and *in particle accelerators.*

As the electrons and positrons slam together in the LEP ring, at almost the speed of light, they annihilate each other (because the positron is the anti-particle to the electron) and release bursts of high energy which almost immediately re-materialise as streams of new particles.

The physicists are most interested in the so-called Z particles which Dr Rubbia and his colleagues discovered at Cern in 1983. Before this year they had detected only a handful of Zs but Slac has now produced several hundred and LEP has made tens of thousands of Zs.

Each Z lasts no longer than a few million million million millionths of a second before disintegrating into a shower of lighter particles, especially neutrinos. By analysing the range of energies over which Zs are produced — the so-called Z width — scientists can deduce the number of fundamental particle families. A greater Z width means that there are more ways of making Zs and therefore a larger number of particle families. It is now clear that this number is in fact three.

*The LEP experimenters* have also measured the mass of the Z particle to much higher accuracy than before (91.1 GeV). The importance of a precise measurement of the Z mass is that it determines the relative strengths of the electromagnetic force and the weak nuclear force, two of the four fundamental forces of nature.

The first two among LEP's many experimental aims have therefore been achieved remarkably quickly. It is likely to take much longer to achieve some of the physicists' other ambitions, such as detecting the top quark (the only one of the six that has not yet been seen) and tracking down the Higgs boson — the most wanted character in particle *physics.*

The Higgs boson (named after Dr Peter Higgs of Edinburgh University) is believed to give mass to all other parti-

**The ultimate aim of LEP is to enable physicists to formulate a theoretical framework for understanding the origins of the universe**

cles. And, of course, there is always the prospect the LEP will lead to completely unpredicted discoveries.

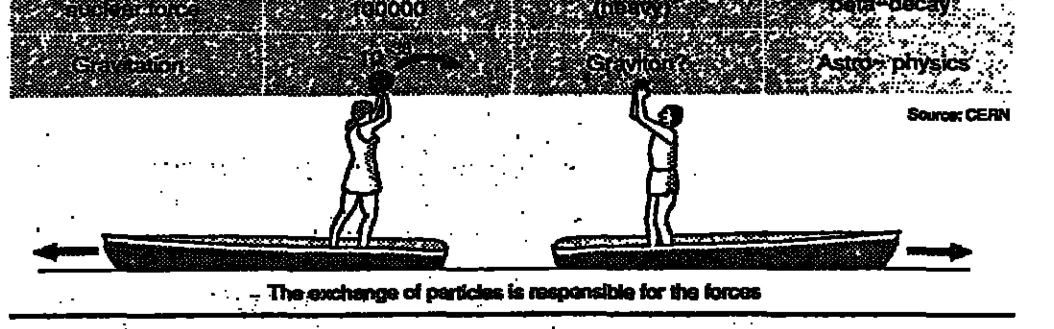
That prospect *will* increase in 1993, when LEP's power will be doubled by adding superconducting magnets to the ring. Looking further ahead, Dr Rubbia and his colleagues are already beginning the process of *raising funds to build* a more powerful collider inside the LEP tunnel: a Large Hadron Collider (LHC) that would smash together protons instead of electrons and positrons.

We will know early in the next century whether the LHC and its more expensive American rival, the Superconducting Super Collider to be built in Texas with an 85 km ring, will feed physicists with enough particles to construct a grand theory of everything.

**'Particle accelerators are to physicists what telescopes and space probes are to astronomers'**

### Nature's four forces

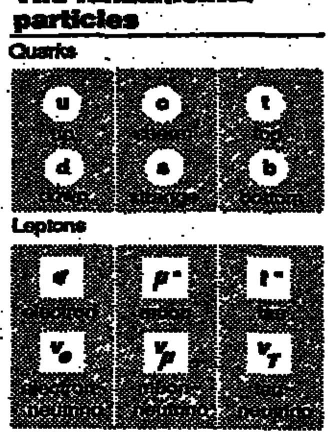
| Type | Intensity of forces (decreasing order) | Binding particle (field quantum) | Occurs in: |
|---|---|---|---|
| Strong nuclear force | 1 | Gluons (no mass) | Atomic nucleus |
| Electro-magnetic force | 1/1000 | Photon (no mass) | Atomic shell electrical engineering |
| Weak nuclear force | 1/100000 | Bosons Z, W, W (heavy) | Radioactive beta-decay |
| Gravitation | $10^{-38}$ | Graviton? | Astro-physics |



Source: CERN

The exchange of particles is responsible for the forces

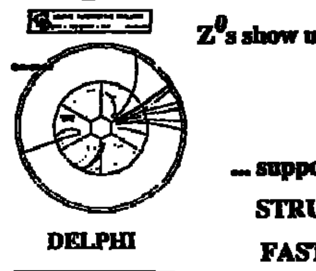
### The fundamental particles




Source: CERN


**Congratulations to all LEP Experiments**

Z⁰s show up in time ...



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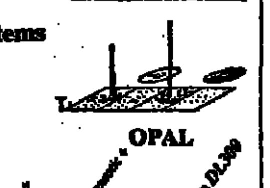

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LEP AND BIG PHYSICS 3

**David Fishlock** on detectors, instruments that view a variety of possible events

# Nobel Prize-winning observations

LOOK at it this way, says Dr Ugo Amaldi: "You can't look at the scene of decay with naked eyes. You must wear glasses. Each group chooses a different colour."

There are four of these groups – one led by Dr Amaldi – each associated with one way of watching the events that take place when LEP's beams collide. They are the experimenters – the ones who may win Nobel prizes for their observations. Each group has designed and built its own detector, and installed it at an intersection, a point where electron and positron beams meet, and their particles break up (decay) into new ones.

There were no bets on which would spot the first covetted Z particle, but it was Opal (Omni-Purpose Apparatus for LEP), led by Mr Aldo Michelini, a senior Cern physicist (who has already won a Nobel) which saw it just minutes after the first physics run began in mid-August.

Within 15 hours Opal had registered about 60 Z particles. "We were lucky", says Dr Alistair Smith, a leading member of this group.

The detectors were designed by a consortium of physics groups drawn much more widely than Cern's 14 member-states which paid for LEP itself. Between them, these consortia have spent about SFr 500m on four mighty pieces of engineering, each weighing some thousands of tonnes. Cern itself had to pay only about one-third of the cost of the detectors.

The detector is a broad-spectrum instrument designed to observe a variety of possible events – consequences of high-energy collisions. Each has up to 14 sub-detectors to provide its broad spectrum. They are expected to do good physics for a decade or longer.

Each detector has its own subtle emphasis, reflecting the consortium's own belief in the best chance of pay-off – a focus on finding a particular particle, or an emphasis on accuracy, for example. Each will generate vastly more data than the physicists have ever enjoyed before, to verify or revise their theories on the structure and origins of matter.

But each consortium hopes its "glasses" will also reveal something new and unexpected. These are the most costly detectors Cern has ever made.

Opal is the most conservatively designed of the four. The Opal consortium consists of 24 institutes drawn from eight nations across Europe, North America and Asia. Japan provided lead glass blocks – about 13,000 of them – to make its electro-magnetic calorimeter, a key component in spotting Z particles. Altogether, Opal cost SFr 74m.

Delphi (detector with Lepton, Photon and Hadron Indentification: the name was proposed by an Oxford physicist) is innovative in concept. This SFr 85m instrument includes the world's biggest superconducting magnet, built by Britain's Rutherford Appleton Laboratory. Dr Amaldi leads the Delphi consortium of 40 institutes, including Soviet teams, which provided Cern with 2,700 tonnes of iron for the yoke.

Aleph (Apparatus for LEP Physics) is the simplest of the four detectors, with fewest components and special emphasis on reliability. Aleph is led by Cern's latest Nobelist, Dr Jack Steinberger. He harnessed 30 institutions worldwide, in building a superconducting solenoid 5.5 metres long and 5.5 m in diameter, wound with some 30 kilometres of superconducting cable to produce its 1.5 Tesla magnetic field.

L3 ( which draws its "name" from being the subject of the third letter of intent for a LEP experiment) is the biggest and costliest, weighing some 8,000 tonnes. It has 13 US universities among its 38 collaborating physics teams. L3 is the only detector in which Cern's Swiss hosts are engaged, and the only one in which Britain is not participating.

These four detectors are excellent illustrations of a remarkable sociology existing between Cern and about 1,300 high-energy physicists who rely upon it to perform their experiments. Between 200 and 400 physicists are associated with each detector. They have a unique talent for getting big and complex projects completed on schedule and within budget. By any standards, these are complex exercises, the more so because they are designed and built piecemeal by widely distributed teams, and shipped as bits to Cern for assembly and testing. The bits have been arriving since early last year.

The four project leaders are all senior Cern physicists. They are called "spokesmen" for their consortia. But they have no direct authority over the participating institutes and staff which have been assigned to their project.

When a participant runs into trouble, says Dr Amaldi, "the only thing I can do is talk to him. I can't fire him." Neither can he reward achievement – "only recommend."

What drives the process might be called enlightened self-interest, he says – the fact that every participating physicist so earnestly wants to work with the detector, see it perform at its best, and is willing to strain every muscle not to have it held up. "In this field, people follow your leadership because of what they know you have already done." Dr Amaldi points to Professor Paul Booth of Liverpool University as a key figure in Delphi. "He has a lot of authority."

If someone runs into trouble with his contribution – "and it has happened" – the spokesman will try, through an executive committee for the project, to recruit any additional skills or expertise needed, or broadcast more generally for, say, "four more good electronics people" to reinforce the flagging part of the project.

The four detectors – of a possible eight that LEP could accommodate if it had enough funds – were all approved in 1983. All four were up and running when LEP came "on the air", as the physicists say, in August.

Each is now being fine-tuned by engineers like Mr Alistair Smith, sniffing nervously for evidence of overheating, gas leaks – anything that might hold up the physicists as they prepare impatiently to trap the deluge of new data from LEP.

**David Thomas** on Cern's attraction for Ph.D. students

# Master class for physicists

DROP into the restaurants at Cern in Geneva and you will be struck by the youth of many of the people eating there. On any one day, Cern is typically awash with Ph.D. students, because in addition to its frontier research work in particle physics, the laboratory also acts as a leading centre for educating the next generation of physicists.

Dr Friedrich Dydak, leader of Cern's experimental physics division, recently analysed the age structure of the 2,000 visiting physicists who are normally using Cern's facilities at any one time. The peak age among the visitors was 25, underlining the high preponderance of Ph.D. students in their make-up.

Dr Dydak cites three reasons why Ph.D. students are so keen to work at Cern. First, and most obviously, they have access to Cern's big machines, like LEP. Moreover, because Cern work is typically carried out in large teams, students from one country find themselves using equipment constructed elsewhere.

"Students from Manchester University may be working with equipment brought from the University of Bari in Italy," Dr Dydak explains.

Second, the plethora of nationalities working at Cern makes it a genuinely international outfit, unlike some of the big laboratories in the US, for example. English, with a fair sprinkling of French, is Cern's lingua franca. "It is a truly international ambience here," says Dr Dydak.

Third, doctoral students find themselves working in the middle of what is without doubt a world-class centre of excellence. They have to play their part in the large Cern teams – in the case of LEP, for example, around 400 people are working on single projects. "It is a big challenge for someone who is aged 25 to work in that environment," says Dr Dydak.

Dr Dydak is under no illusion about the contribution which the Ph.D. students in return make to Cern's activities: "We love them. Without these people, nothing would happen," he says.

For its part, by opening its doors to these budding physicists, Cern is making a significant contribution to the educational programmes of the countries linked to the laboratory.

In Britain, for example, Cern's educational contribution is described as "very important" by Dr David Thomas, head of the nuclear physics division of the Science and Engineering Research Council, a body responsible for distributing Government cash for research.

Dr Thomas reckons that the council is supporting about 60 Ph.D. students in any one year whose work is focused on Cern activities. He stresses that the experience gained by these students while at Cern makes them valuable recruits for high technology industries. That is because at Cern they have to get to grips with the most advanced computing software and electronics.

Dr Peter Kalmus, professor of physics at Queen Mary College, London University, agrees: "Although the theoretical physics at Cern may seem a little bit exotic – we're trying to study conditions which existed at the beginning of the universe at Big Bang – the way we do it, with large teams, big labs, high technology, working shifts, makes it resemble a research lab in a high technology industry."

A long-time Cern associate who played a key role in the Cern experiment which discovered the existence of the W and Z fundamental particles and the measurement of the size of the quark, Prof Kalmus says that students who have completed Cern-related Ph.Ds are snapped up by employers in industries like computing.

How a university physics department dovetails its educational work with Cern is explained by Dr John Dainton, senior lecturer in physics at Liverpool University and a member of the Science and Engineering Research Council's particle physics committee.

Typically, Dr Dainton's Ph.D. students would pass most of their first year at Liverpool doing the groundwork on their theses, with perhaps three or four brief visits of a couple of weeks at a time to Cern.

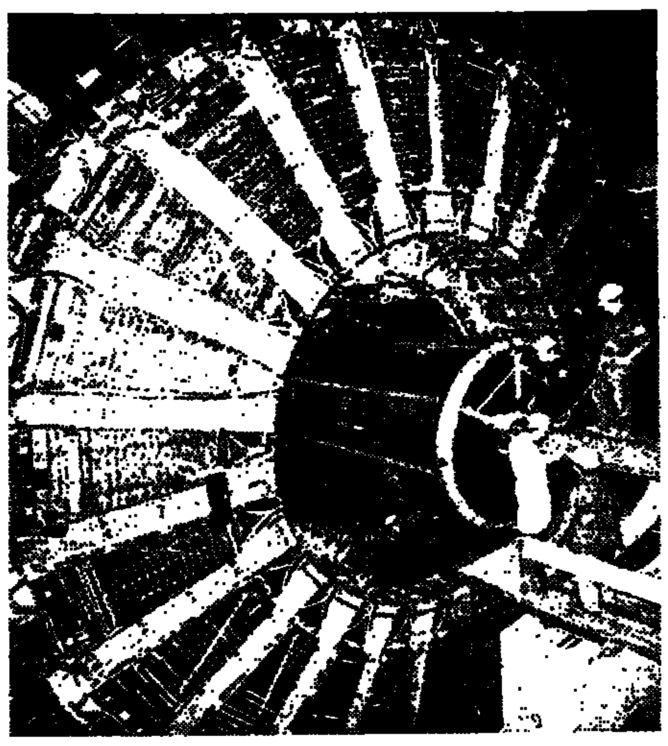
They would then spend the whole of their second year in Geneva working on experiments, generating data and collaborating with Cern's full-time staff like Dr Dydak, before returning to the UK for a final year devoted to analysing the data and writing up the results.

But Dr Dainton also injects Cern's activities into Liverpool's undergraduate courses, through a third year option on particle physics, where students can learn about the latest work in Geneva. "The classical theory of university education really works. Undergraduates are influenced by the latest research activities," Dr Dainton says.

Neither does Cern itself ignore undergraduate education. It has two programmes geared towards pre-doctoral students.

First, each year it gives around 200 students aged about 20 a chance to work on a specific six-month project at Cern. Second, it runs a summer school for about 100 students nearing the end of their undergraduate studies.

They stay in Geneva for up to three months, adding to the jollity of life at Cern, as Dr Dydak explains: "There's always high life during the summer, with lots of baseball games and parties. We are sorry when autumn comes and the students go home."



Installing the time projection chamber in the Delphi detector

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International research and collaboration

# The 'Cern spirit'

*"In Cern, we have a model in Europe from which all countries can learn" – Professor Eduardo Amaldi, 1977.*

The success of Cern as a co-operative international venture has inspired many other European research and technology programmes.

Cern was conceived in the early 1950s, of a political ideal that saw high-energy physics – "atom-smashing" – and its need for very powerful and expensive instruments as a golden opportunity to re-unite the nations of Europe in a common cultural mission. The mission itself was assuredly of a calibre that must lure the best and brightest brains.

The scientists themselves convinced European politicians that they might be on the threshold of another source of energy, still more potent than nuclear fission, harnessed so dramatically during the previous decade. Europe, they argued, could not afford to leave so promising a field to the two superpowers.

First the Italian government, followed swiftly by France and Belgium, pledged funds for a new international research institution. Scientists who had walked the corridors of power in the Second World War lent their names to the venture, among them Professor Eduardo Amaldi.

In 1951 a convention was signed by 11 governments in Geneva setting up a provisional organisation called the Conseil Europeen pour la Recherche Nucleaire (Cern), with Professor Amaldi as its first secretary-general.

Britain at this point was merely an observer. But when the time came to ratify the convention, in 1954, Britain was one of the first to sign. The 12 member-states guaranteed at least 75 per cent of Cern's financial commitment.

As defined, CERN's aims are to "provide for collaboration among European states in nuclear research of a pure scientific and fundamental character, and in research essentially related thereto." Its first plans were to build two atom-smashers, big and advanced by the standards of the day, although minuscule when compared with LEP.

Thus was kindled what has become known as the "Cern spirit". To quote Professor Herwig Schopper, Cern's director-general almost throughout the construction of LEP, this is "a competitive but fair spirit, under which scientific and technical criteria are considered more important than national or personal interests."

Europe's biologists copied the formula in setting up the European Molecular Biology Organisation in Heidelburg, West Germany. The founding director of the European Molecular Biology Laboratories (EMBL) was Sir John Kendrew, the Cambridge Nobel laureate, who ran them for 10 years.

Shortly after Sir John Kendrew retired, the laboratories received an accolade from Britain's Medical Research Council. Despite its own considerable financial difficulties at the time, the council concluded in 1983 that the £1.2m. a year it was providing to EMBL was amply merited by the research it was doing. The research council is still contributing – £3.3m. last year.

In 1985 the British wanted an independent but expert view on whether they were getting "value for money" from the £60m a year it was (then) spending on particle physics, including £35m as subscription to Cern. They chose Sir John Kendrew, who proved a stern but fair critic. Britain remains a full member of Cern, making the third-biggest contribution to its budget last year, 16.81 per cent.

Another successful European collaboration based, like Cern, on powerful central facilities which Europe's scientists can tap for experiments is in neutron science. Neutrons are electrically neutral particles which can penetrate to places denied to electrically charged beams.

The neutron collaboration began as a Franco-German partnership to build an experimental reactor at Grenoble, France, specifically to generate neutron beams as a highly illuminating kind of radiation for many chemical and biological experiments.

In the early 1970s Britain negotiated a share in this facility, called the Institut Laue-Langevin, creating a tripartite scientific collaboration. In 1984, Britain commissioned its own big neutron source, Isis, at the Science and Engineering Research Council's Rutherford and Appleton Laboratory near Oxford.

Isis generates pulses of neutrons rather than beams, and so complements the neutron beam reactor as an experimental tool. Soon after, Britain persuaded France and Italy to become partners in sharing and developing this machine.

West Germany has joined the club this month, and will help pay for the next stage of Isis's development.

The Joint European Torus is another highly successful collaboration, albeit subtly different from Cern, EMBL or Isis. JET is not a quest for new scientific understanding, but a technological venture to regulate the release of a source of energy well known to exist. The purpose is simply to share the cost of very expensive experiments in the control of nuclear fusion reactions.

JET, funded by the European Community, cost £175m to build. It was commissioned in 1985 and its research programme – including a two-year extension – continues until 1992.

It unites the efforts of about 1,000 scientists and engineers in fusion research laboratories throughout the 12 nations. This research community has already begun to plan a new experimental equipment, called the Next European Torus (NET). It hopes the EC can be persuaded to fund NET in the 1990s.

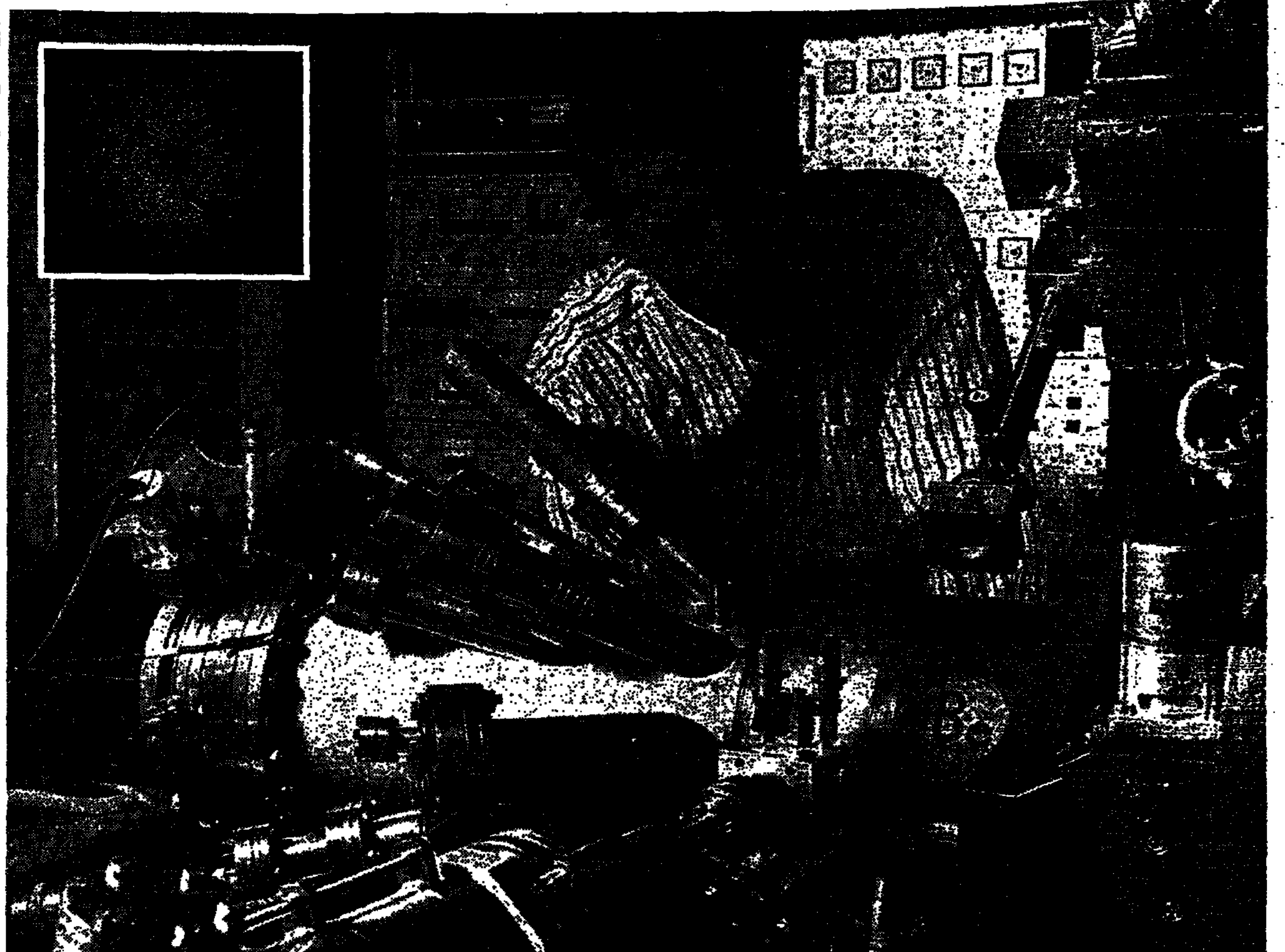
The model constructed by the physicists in the 1950s, and replicated for so many other disciplines of science, has certainly influenced Europe in planning its ambitious pre-competitive research collaborations of the 1980s, such as the EC's Esprit programmes in electronics, and Eureka spanning a host of industrial activities.

Eureka, born in 1985, embraces more nations than any other scientific collaboration, a total of 19, including all the EC and EFTA nations. Its industrial, academic and national partners have signed undertakings agreeing to spend more than £6bn on nearly 300 projects. This is more money than all the funds committed to European Community research projects.

**David Fishlock**

Accelerators have alternative uses, notably in industry, writes **David Fishlock**

# Multiple roles for the 'atom-smashers'



Experimental station on the 2 GeV electron storage ring dedicated to generating synchrotron radiation at Daresbury, the Science and Engineering Research Council's lab, and (inset) Laue diffraction pattern of the enzyme phosphorylase, which X-rays from Daresbury's accelerator can generate in less than a second

PARTICLE accelerators – "atom-smashers" – have their uses outside laboratories like Cern, in industrial research, in manufacture, in medical diagnosis and treatment, for example. They could also find uses as beam weapons in the high vacuum of space. Some of these uses are likely to expand rapidly with recent successes in miniaturising machines.

Synchrotron radiation, for example, was once simply a nuisance, an unwanted "noise" of atomic collisions that forced the physicist to ever bigger machines as he tried to avoid it interfering with his measurements. Now it is recognised as a valuable radiation in its own right, and accelerators are specially designed to produce it.

Synchrotron radiation is the most brilliant source of X-rays available today. As such it has penetrating powers for crystallographers that are far more revealing than more conventional X-ray "lamps". Daresbury, the Science and Engineering Research Council's laboratory in Cheshire, has developed a 2 GeV accelerator specifically as an X-ray synchrotron radiation source (SRS).

The SRS, costing about £12m a year to run, serves Britain's academic community in the same way as Cern serves the high-energy physicists, as a central facility to which they bring their experiments for exposure to its penetrating rays. The difference is that the SRS serves scientists from many different disciplines – biology and medical science, chemistry and materials science, for instance.

Daresbury is also attracting industrial researchers. Since 1982 three big groups – British Petroleum, ICI and Shell – have operated a research consortium that collaborated in techniques and negotiated access for their individual experiments in catalysis, advanced materials, lubricants, etc. In 1987, this trio committed itself to spending another £500,000 over four years.

This autumn Glaxo group research announced it would be spending £500,000 for access to the SRS over the next five years, as part of its search for new drugs based on a deeper understanding of protein crystal structures.

Daresbury believes the SRS is a world-class research facility that can be marketed to many more industries in Europe. Professor Alan Leadbetter, its director, points out that a weaker light source of the same kind at the Brookhaven National Laboratory in the US has four of its 14 beam lines that tap its light for experiments devoted to industrial research. They are paid for by such companies as AT&T Bell Laboratories, Exxon, IBM and Xerox.

Similarly, Japan's Photon Factory at Tsukuba has four out of its 14 beam lines devoted to industrial research. European industry – especially its electronics companies – has been backward in recognising the value of synchrotron radiation, Prof Leadbetter says.

One company which is convinced synchrtron radiation is going to find a significant role in manufacture is the Oxford Instruments Group. With Daresbury's help, it has designed a miniaturised version of the SRS called Helios, which it hopes to sell to electronics companies as a production-line tool for the next generation of silicon chips with components of sub-micron dimensions.

Its intense short-wave radiation will permit finer structures to be reproduced by photo-lithography and hence denser packing of components on chips. The first Helios, ordered by IBM for its advanced semiconductor facility at East Fishkill near New York, is nearing completion near Oxford. It uses the group's renowned skills in superconductivity to shrink the magnet ring to a size the factory might accommodate.

Oxford Instruments and IBM have been partners in the Helios project for six years. "We're part of a team that is going to make innovation take place," says Dr Peter Williams, chief executive.

IBM scientists had been using the Brookhaven machine for a decade before they teamed up, to learn the value of the radiation.

**The cyclotron, progenitor of today's accelerators, has already found a place in manufacture, as a way of making many radio-isotopes used in medicine, industry and research**

From IBM Oxford Instruments has learned "how to organise ourselves to meet the requirements of a large customer," says Dr Williams. IBM calls it X-ray synchrotron lithography and has just enlisted Motorola Corporation as its partner in developing applications for the technology.

In the UK, Helios is being built to a fixed-price contract of about £10m, helped by a £1m government grant under the Department of Industry's TI's Support for Innovation scheme.

Dr Williams expects to deliver it early in 1990. The one machine will serve 10 semiconductor manufacturing lines simultaneously. It is never going to be a cheap technology, he acknowledges.

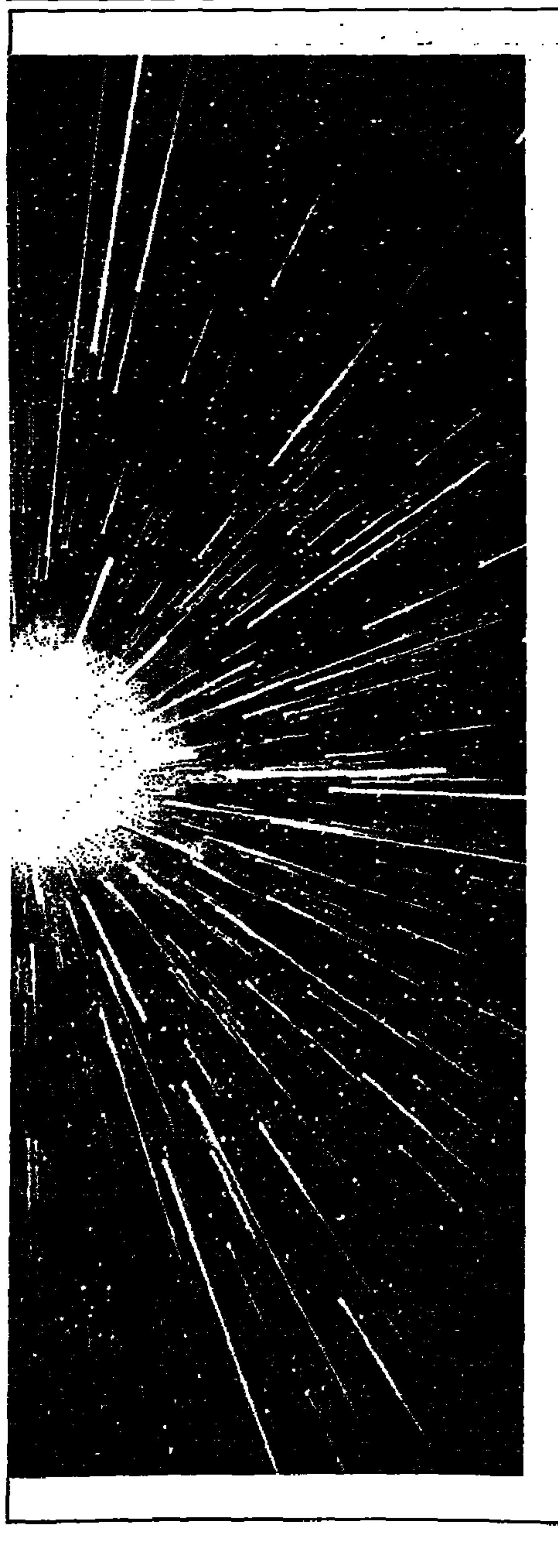
But he believes the next Helios will be built for at least £1m-£2m less. He also believes every large semiconductor maker will be clamouring for his own source of synchrotron radiation over the next decade.

The cyclotron, progenitor of today's accelerators, has already found a place in manufacture, as a way of making many radio-isotopes used in medicine, industry and research.

Amersham International, the world's biggest supplier of radio-isotopes, since its purchase of Medi-Physics in the US from Hoffmann-La Roche, now has seven cyclotrons – two in Britain and five in the US.

Oxford Instruments has also designed a miniature cyclotron using superconducting magnets, as a compact way of making short-lived radio-isotopes, for example for hospital diagnostics.

One criterion was that it should be small enough to go through hospital doors. Packed into a ring only 1.1 metres in diameter is a proton accelerator of 17m electron-volts (MeV). The first superconducting cyclotron is being delivered to NKK, as a potential new product line for the Japanese engineering group.



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# Cocooning can prove a worse judgment

## Raymond Hughes on an alternative to banning pre-trial publicity

PARLIAMENT has provided statutory safeguards to prevent the trials of people charged with criminal offences being prejudiced by pre-trial publicity.

Section 4(2) of the 1981 Contempt of Court Act enables a judge to postpone reporting of a case where there is "a substantial risk of prejudice" in the immediate proceedings "or in any proceedings pending or imminent."

Section 11 of the 1987 Criminal Justice Act imposes reporting restrictions on pre-trial hearings at crown courts. It was designed to take account of the new procedure under which serious fraud cases are transferred to the crown court without going through the committal procedure before magistrates.

The section permits only basic facts to be reported, such as the names and addresses of the defendants, the charges, arrangements as to bail and the date of any adjournment.

The restrictions are almost identical to those limiting reporting of magistrates' court committal hearings. In both cases they can be lifted only on an application by one or more defendants.

No one would dispute that it is proper that there should be such safeguards. What is worrying to anyone concerned with open justice and press freedom is the way the two sections have operated in practice in two major City cases.

In October 1988 the Financial Times forecasted that the prosecution of the seven men charged in connection with the Guinness takeover of Distillers would be split into two or more trials.

In April this year the FT broke the story that the Serious Fraud Office was indeed going to propose a two-trial split, with Mr Ernest Saunders, the sacked Guinness chairman and chief executive, in the dock in both.

In the following months both this paper and others referred on numerous occasions to the matter, mentioning which defendants it was proposed should appear in each trial.

In September Mr Justice Henry, the trial judge, made his decision on split trials – and the barrier went down. The judge ruled that his decision on split trials, and on other procedural matters – including amendments to the widely publicised list of charges – could not be reported because they were covered by the section 11 restrictions.

He had been minded to lift the restrictions but was advised that he had no power to do so.

Since then he has given a number of other judgments on pre-trial issues in the Guinness case, all of which are covered by the section 11 restrictions.

The Henry ruling was mentioned in the High Court recently when the possibility was raised of a similar ban on reporting of Mr Saunders' challenge to the refusal to grant him legal aid to defend the £5.2m civil claim against him by Guinness.

Lord Justice Watkins, the Deputy Chief Justice, wanted to know what had been the point of stopping the press reporting the split trial decision and the alterations to the indictment.

No point, he was told by Mr Anthony Lester, QC, for Mr Saunders. It had, Mr Lester said, seemed idiotic to Mr Justice Henry, but that was what the law seemed to require.

"It's daft," said Lord Justice Watkins.

Mr David Pannick who, as it happened, had been the *amicus curiae* who advised Mr Justice Henry on what he could and could not do under section 11, offered an explanation.

Section 11 restrictions, he said, could not be lifted in part – it was all or nothing.

In the event no gag was sought in the Saunders case – which was probably just as well because Lord Justice Watkins made it plain he would not accede to such an application. "I do not intend," he said, "to apply the square root of lunacy."

It would be interesting to know what view he might have taken of the occasion back in June when Mr Justice Henry imposed a section 4(2) ban on reporting of a hearing at which Mr Saunders' then solicitors in the Guinness prosecution, Landau & Landau, withdrew from the case.

When that hearing opened Mr Saunders' counsel asked for a ban until the end of the hearing. When it ended the application was withdrawn, counsel saying that he had made it "out of an abundance of caution."

Barristers appearing for the Serious Fraud Office and for Landau & Landau also saw no reason for a ban, while David Pannick, then also briefed as *amicus*, said that a ban would be "entirely inappropriate."

Notwithstanding that unanimity of views Mr Justice Henry kept the ban on overnight while he considered whether it was necessary to protect Mr Saunders' co-accused who were not represented.

Next morning he lifted it before giving his judgment.

Last summer there began in the High Court a series of hearings in connection with the collapse of Mr Peter Clowes' Barlow Clowes fund management empire, which is also the subject of criminal proceedings. The hearings related to the division of salvaged funds between investors – a subject, one would have thought, deserving publicity.

On the second day of the first hearing counsel for the SFO asked for, and was granted by Mr Justice Peter Gibson, a section 4(2) order. The judge made similar orders at subsequent hearings, admittedly making it a condition of doing so that a press statement should be issued afterwards giving the essence of his rulings.

The Barlow Clowes prosecution has still not got beyond Guildhall magistrates. Transfer to the crown court is not expected much before the end of the year and it will be many months before the trial begins.

None the less, the Serious Fraud Office was able to persuade a judge that publicity given to matters mentioned in the civil proceedings could prejudice criminal proceedings which, though undoubtedly pending, could hardly be said to be imminent.

It is regrettable that more judges do not take the commonsense view on these matters expressed recently by Lord Donaldson, the Master of the Rolls. Lifting a section 4 ban on a BBC documentary about the West Midlands police crime squad, he commented: "It's idle to think the courts can cocoon jurors against all outside influences.

"They are always warned to ignore such influences and they do show a remarkable ability to do that."

It is highly likely that when the Guinness trial opens at Southwark Crown Court on January 8 an application will be made for a section 4(2) order.

Why, and by whom, might such a gag on the press be sought? That you cannot be told – this newspaper, like every other, being reluctant to find itself hauled before the court.

Why should we face such a risk? Because the section 4(2) application would stem from one of Mr Justice Henry's decisions in September – which section 11 prevents us reporting.

Section 11 should be amended – not to give the press *carte blanche*, but to at least give judges a discretion to use it sensibly, in a manner that will balance the dual public interests in fair trials and fair reporting of trials.

As for section 4: a less arbitrary use and a clearer interpretation of what is "pending or imminent" would be welcome.


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## AUTHORISED UNIT TRUSTS

### Abbey Unit Tst Mngrs (1000)H

80 Holdenhurst Rd, Bournemouth 0345 717373

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| **High Income** | | | | | | |
| American Income | 6 | 54.74 | 54.74 | 58.55 | 4.69 | 40000 |
| Gilts & Fixed Int | 6 | 109.00 | 109.0 | 115.7 | 8.64 | 40001 |
| High Inc Equity | 6 | 129.10 | 131.9xd | 140.4 | 4.52 | 40002 |
| Worldwide Bond | 6 | 203.40 | 203.4xd | 215.5 | 4.92 | 40003 |
| **Capital Growth** | | | | | | |
| American Growth | 6 | 198.20 | 200.2 | 213.0 | 0.89 | 40004 |
| Asian Pacific | 6 | 114.30 | 116.5 | 124.0 | 1.05 | 40005 |
| Assets & Earnings | 6 | 151.50 | 151.5xd | 162.1 | 2.28 | 40006 |
| Capital Reserve Acc | 0 | 87.79 | 87.79 | 87.99 | 4.55 | 40007 |
| Capital Reserve Inc | 0 | 77.93 | 77.93 | 78.10 | 5.12 | – |
| Comdty & Energy | 6 | 115.70 | 118.2 | 125.8 | 1.51 | 40008 |
| 1992 Enterprise | 6 | 58.51 | 58.51 | 62.58 | 2.05 | 46597 |
| Euro Capital Acc | 6 | 92.61 | 93.35 | 99.31 | 0.76 | 40009 |
| Euro Capital Inc | 6 | 89.30 | 90.00 | 95.75 | 0.78 | – |
| General | 6 | 172.00 | 172.0 | 184.0 | 2.72 | 40010 |
| International | 6 | 56.61 | 57.24 | 60.90 | 0.82 | 46852 |
| Japan | 6 | 122.30 | 124.6xd | 132.6 | 0.00 | 40011 |
| Mastertrust | 6 | 90.05 | 90.05 | 96.32 | 1.76 | 40012 |
| UK Growth Acc | 6 | 177.60 | 177.6xd | 190.0 | 1.47 | 40013 |
| UK Growth Dist | 6 | 117.30 | 117.3xd | 125.5 | 2.23 | 40014 |
| US Emerging Cos | 6 | 54.09 | 55.44xd | 59.00 | – | 40015 |
| Income & Growth | 6 | 291.70 | 298.1xd | 317.2 | 3.23 | 40016 |
| Ethical | 6 | 45.94 | 47.20 | 50.22 | 1.99 | 40217 |

### Abtrust Management Ltd (1000)H

10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

### Provident Mutual Unit Tst Mgrs Ltd (0905)H

25-31 Moorgate, London, EC2R 6BA. 01-588 3963

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| PM Equity Gth | 5 | 115.3 | 115.3 | 122.6 | 2.81 | 41169 |
| PM Income & Gth | 5 | 93.23 | 93.23 | 99.18 | 4.41 | 41170 |

## GUIDE TO UNIT TRUST PRICING

**INITIAL CHARGES**
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

**OFFER PRICE**
The price at which units may be bought.

**BID PRICE**
The price at which units may be sold.

**CANCELLATION PRICE**
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

**TIME**
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: [illegible] - 0001 to 1100 hours; [illegible] - 1101 to 1400 hours; [illegible] - 1401 to 1700 hours; [illegible] - 1701 to midnight.

**HISTORIC PRICING**
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

**FORWARD PRICING**
The letter F denotes that prices are set on a forward basis, so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

**SCHEME PARTICULARS AND REPORTS**
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Wellington Fund Mngrs Ltd (1200)F

Wessex Asset Management (1330)F

Whittingdale Unit Tst Mgmt Ltd

## OTHER UK UNIT TRUSTS

## INSURANCES

Albany Life Assurance Co Ltd—Contd.

Citicorp British National

Crusader Insurance Plc

Assicurazioni GENERALI SpA

Irish Life Assurance Co Plc—Contd.

MGM Assurance(z)

NEL Britannia Assce Co Ltd—Contd.

Continued on next page

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### Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| American | 123.0 | 130.0 | – | 43285 |
| Building Soc. Fd. | 180.0 | 190.0 | – | 43286 |
| Balanced | 275.0 | 290.0 | – | 43287 |
| European | 183.0 | 193.0 | – | 43289 |
| GT Managed | 183.0 | 193.0 | – | 43290 |
| Gartmore Mngd. | 126.0 | 133.0 | – | 43291 |
| German | 142.0 | 150.0 | – | 43292 |
| Gilt | 175.0 | 185.0 | – | 43293 |
| Global | 49.0 | 52.0 | – | 46834 |
| High Inc. | 106.0 | 112.0 | – | 43294 |
| International Equity | 190.0 | 200.0 | – | 43295 |
| Japan | 279.0 | 293.0 | – | 43296 |
| Managed | 56.0 | 59.0 | – | 43297 |
| Property | 298.0 | 314.0 | – | 43298 |
| R W Imperial Gold | 147.0 | 155.0 | – | 43299 |
| UK Equity | 301.0 | 317.0 | – | 43300 |
| **Pension Funds** | | | | |
| American | 153.0 | 162.0 | – | 43301 |
| Building Soc. Fd. | 180.0 | 190.0 | – | 43302 |
| Balanced | 216.0 | 228.0 | – | 43303 |
| European | 185.0 | 195.0 | – | 43305 |
| German | 123.0 | 130.0 | – | 43308 |
| Gilt | 153.0 | 162.0 | – | 43309 |
| International Equity | 140.0 | 148.0 | – | 43310 |
| Japan | 144.0 | 152.0 | – | 43311 |
| Managed | 62.0 | 66.0 | – | 43312 |
| Property | 228.0 | 240.0 | – | 43313 |
| UK Equity | 302.0 | 318.0 | – | 43314 |

### Professional Life Assurance Co Ltd

Frobisher Hse, Nelson Gate, Southampton 0703 232323

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| Pensions Managed Fund | 92.30 | 97.57 | – | 42263 |
| Pensions Cash Fund | 81.46 | 85.74 | – | 42264 |

### Prolific Life & Pensions Ltd

### Prudential Holborn Pensions Ltd—Contd.

| | Bid Price |
|---|---|
| Index Linked Gilt | 204.2 |
| Guaranteed | 13.75 |
| International Money | 210.2 |
| North American | 79.3 |
| Japanese | 162.3 |
| European | 103.5 |
| Special Situations | 109.9 |
| Communications | 101.6 |
| Smaller Companies | 103.7 |
| International Small Cos | 139.2 |

### Prudential Pensions Limited

Holborn Bars, London EC1N 2NH

| | Bid Price |
|---|---|
| Discretionary Nov 8 | £157.88 |
| Equity Nov 8 | £167.00 |
| International Nov 8 | £27.93 |
| Intl Bond Nov 8 | £12.84 |
| Fixed Inc Nov 8 | £74.04 |
| Index Linked Nov 8 | £63.47 |
| Property Nov 9 | £116.47 |
| Cash Nov 8 | £22.074 |
| **Pre-Linked Retirement Plan** | |
| Managed Nov 9 | 379.7 |
| Cash Nov 9 | 206.7 |
| **Prudential Pensions Investment Acc** | |
| Pens Mngd Nov 9 | 154.2 |
| Pens UK Eq Nov 9 | 283.4 |
| Pens Intl Nov 9 | 192.0 |
| Pens Fixed Nov 9 | 170.7 |
| Pens Index Lk Nov 9 | 164.6 |
| Pens Cash Nov 9 | 134.9 |

### Regency Life Assurance Co

Regency Hse, Lanark Sq, London E14

| | Bid Price |
|---|---|
| Aggressive Ptflio Fd | 118.7 |

### Scottish Equitable Life Assce. Soc.—Contd.

### Skandia Life Assurance Co Ltd—Contd.

### Target Life Assurance Co Ltd—Contd.

### Roxborough Financial Management Ltd

### Rothschild Asset Management—Contd.

| Unit Name | Bid Price | Yield Gr's | City-line |
|---|---|---|---|
| OCCFL £ | 10.053xd | 14.53 | 45683 |
| OCCFL A$ | 15.096xd | 17.51 | 45684 |
| OCCFL C$ | 20.083xd | 11.58 | 45685 |
| OCCFL DFl | 50.137xd | 7.29 | 45686 |
| OCCFL DKr | 150.61xd | 10.57 | 45687 |
| OCCFL DM | 40.106xd | 7.03 | 45688 |
| OCCFL ECU | 15.048xd | 9.75 | 45689 |
| OCCFL BFr | 802.3xd | 8.87 | 45690 |
| OCCFL FFr | 100.255xd | 9.26 | 45691 |
| OCCFL HK$ | 100.28xd | 7.29 | 45692 |
| OCCFL Lire | 25,064xd | 9.75 | 45693 |

### Ivory & Sime—Contd.

| | | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|---|
| Europrivé Portfolio | £ | 0.989 | 1.048 | – | – |
| Japan Portfolio | £ | [illegible] | [illegible] | [illegible] | [illegible] |
| Pacific Portfolio | $ | 2.391 | 2.536 | [illegible] | [illegible] |
| Gold Portfolio | $ | 2.215 | [illegible] | [illegible] | [illegible] |
| UK Growth of Income | £ | 1.156 | [illegible] | [illegible] | [illegible] |
| Sterling Gilt Portfolio | £ | 1.025 | [illegible] | [illegible] | [illegible] |
| Global Bond Portfolio | $ | 1.937 | [illegible] | [illegible] | [illegible] |
| Dollar Portfolio | $ | 2.157 | [illegible] | [illegible] | [illegible] |
| Yen Portfolio | £ | 1.007 | 1.008 | [illegible] | [illegible] |
| Sterling Portfolio | £ | 1.032 | 1.033 | [illegible] | [illegible] |

### Nomura Global Fund

## OFFSHORE AND OVERSEAS

## MANAGEMENT SERVICES

## GUERNSEY (SIB RECOGNISED)

## JERSEY (SIB RECOGNISED)

## IoM (SIB RECOGNISED)

## LUXEMBOURG (SIB RECOGNISED)

## SWITZERLAND (SIB RECOGNISED)

## GUERNSEY (**)

## JERSEY (**)

# FT UNIT TRUST INFORMATION SERVICE

## ISLE OF MAN (**)

## LUXEMBOURG (**)

## OTHER OFFSHORE FUNDS

## OFFSHORE INSURANCES

# LONDON SHARE SERVICE

## BRITISH FUNDS

| Amount £m | Stock | Price £ | Red. Yld. | Last xd | Interest Due | City-line |
|---|---|---|---|---|---|---|
| | **"Shorts" (Lives up to Five Years)** | | | | | |
| 174 | Exch 10¼pcCv '89 | 100xd | – | 9.10 | 15 May 15 Nov | 1265 |
| 1,000 | Treas 13pc 1990‡‡ | 99 | 14.66 | 8.6 | 15 Jul 15 Jan | 1300 |
| 500 | Treas 2pc IL '90(84.6) | 133¼ | 9.98 | 19.6 | 25 Jul 25 Jan | 1311 |
| 1,400 | Exch 11pc 1990‡‡ | 99 | 14.31 | 12.7 | 12 Aug 12 Feb | 1257 |
| 1,250 | Exch. 12¼pc 1990 | 99 | 14.43 | 16.8 | 22 Sep 22 Mar | 1262 |
| 550 | Treas. 3pc 1990 | 96 | 11.72 | 2.10 | 8 Nov 8 May | 1325 |
| 600 | Treas 8¼pc 1987–90‡‡ | 97¼xd | 13.67 | 8.11 | 15 Dec 15 Jun | 1340 |
| 955 | Treas. 8pc Cv 1990 ‡‡ | 96 | 13.60 | 9.6 | 16 Jul 16 Jan | 4080 |
| 1,887 | Treas. 10pcCv 1990 | 97 | 13.99 | 18.9 | 25 Apr 25 Oct | 1285 |
| 500 | Exch 2½pc 1990 | 92½xd | 10.13 | 16.10 | 22 May 22 Nov | 1270 |
| 2,200 | Treas 11¾pc 1991 | 98 | 12.98 | 27.6 | 10 Jul 10 Jan | 1292 |
| 400 | Funding 5¾pc '87–91‡‡ | 93 | 11.27 | 1.9 | 5 Oct 5 Apr | 1275 |
| 400 | Treas. 3pc 1991 | 90 | 9.91 | 9.10 | 13 Nov 13 May | 1326 |
| 646 | Treas 10pc Cv '91 ‡‡ | 96 | 12.37 | 27.6 | 12 Jan 12 Jul | 1286 |
| 1,550 | Exch. 11pc 1991 | 97 | 12.25 | 18.9 | 25 Apr 25 Oct | 1258 |
| 1,350 | Treas. 8pc 1991 | 92½xd | 12.21 | 3.11 | 10 Jun 10 Dec | 1335 |
| 900 | Treas 12¾pc 1992‡‡ | 101 | 11.74 | 15.6 | 22 Jul 22 Jan | 1297 |
| 1,600 | Treas 10pc 1992 | 96 | 11.78 | 17.7 | 21 Aug 21 Feb | 1283 |
| 1,400 | Treas. 8pc 1992 ‡‡ | 92 | 11.75 | 6.9 | 13 Oct 13 Apr | 1337 |
| 1,288 | Treas 10½pc Cv 1992‡‡ | 97 | 11.57 | 2.10 | 7 Nov 7 May | 1289 |
| 500 | Treas. 3pc 1992 | 84xd | 9.84 | 6.11 | 11 Dec 11 Jun | 1328 |
| 1,350 | Exch. 12¼pc '92 | 101 | 11.61 | 19.7 | 25 Feb 25 Aug | 1265 |
| 1,757 | Exch 13½pc 1992 | 104 | 11.48 | 31.8 | 22 Mar 22 Sep | 1266 |
| 950 | Treas 8¼pc 1993 | 91 | 11.35 | 12.7 | 18 Aug 18 Feb | – |
| 1,850 | Treas 10pc 1993‡‡ | 96 | 11.28 | 8.9 | 15 Oct 15 Apr | 1279 |
| 1,100 | Treas 12½pc 1993‡‡ | 103 | 11.27 | 27.6 | 14 Jan 14 Jul | 1296 |
| 600 | Funding 6pc 1993‡‡ | 86 | 10.21 | 9.8 | 15 Mar 15 Sep | 1276 |
| 1,250 | Treas 13¾pc 1993‡‡ | 106 | 11.17 | 17.10 | 23 May 23 Nov | 1304 |
| 1,050 | Treas. 8½pc 1994 | 91 | 11.18 | 27.6 | 3 Aug 3 Feb | – |
| 600 | Treas 14½pc 1994‡‡ | 111 | 11.00 | 26.7 | 1 Sep 1 Mar | 1307 |
| 1,100 | Exch 13½pc 1994 | 108 | 11.13 | 20.9 | 27 Oct 27 Apr | 1267 |
| 1,400 | Treas. 10pc Ln. 1994‡‡ | 96xd | 11.00 | 2.11 | 9 Dec 9 Jun | 1284 |
| 1,550 | Exch. 12½pc 1994 | 104 | 11.12 | 17.7 | 22 Feb 22 Aug | 1263 |
| | **Five to Fifteen Years** | | | | | |
| 1,600 | Treas 9pc 1994‡‡ | 92xd | 10.90 | 11.10 | 17 May 17 Nov | 1345 |
| 2,350 | Treas 12pc 1995 | 103 | 11.06 | 19.6 | 25 Jul 25 Jan | 1294 |
| 229 | Exch 3pc Gas 90–95 | 76½ | 8.39 | 25.9 | 1 Nov 1 May | 1271 |
| 2,100 | Exch. 10¼pc 1995 | 97 | 10.94 | 14.6 | 21 Jan 21 Jul | 1254 |
| 1,000 | Treas 12¾pc 1995‡‡ | 108xd | 10.83 | 9.10 | 15 May 15 Nov | 1298 |
| 900 | Treas. 14pc '96 | 112 | 11.03 | 15.6 | 22 Jul 22 Jan | 1305 |
| 750 | Treas. 9pc 1992–96‡‡ | 92 | 10.68 | 9.8 | 15 Sep 15 Mar | 1344 |
| 1,350 | Treas 15¼pc 1996‡‡ | 119 | 10.88 | 27.9 | 3 Nov 3 May | 1309 |
| 800 | Exch 13¼pc 1996‡‡ | 111xd | 10.87 | 9.10 | 15 Nov 15 May | 1268 |
| 1,109 | Conversion 10pc 1996 | 96xd | 10.71 | 9.10 | 15 May 15 Nov | 1240 |
| 1,500 | Treas 13¼pc 1997‡‡ | 111 | 10.80 | 15.6 | 22 Jul 22 Jan | 1302 |
| 3,100 | Exch 10½pc 1997 | 98 | 10.71 | 17.7 | 21 Aug 21 Feb | 1253 |
| 3,750 | Treas 8¾pc 1997‡‡ | 90 | 10.50 | 24.8 | 1 Mar 1 Sep | 1341 |
| 1,000 | Exch 15pc 1997 | 121 | 10.93 | 20.9 | 27 Apr 27 Oct | 1269 |
| 2,850 | Exch. 9¾pc 1998 | 95 | 10.61 | 12.6 | 19 Jul 19 Jan | 1273 |
| 1,000 | Treas 6¾pc 1995–98‡‡ | 88 | 10.20 | 25.9 | 1 Nov 1 May | 1331 |
| 1,100 | Treas. 15½pc '98‡‡ | 126 | 10.76 | 24.8 | 30 Mar 30 Sep | 1308 |
| 2,500 | Exch. 12pc 1998 | 107 | 10.72 | 16.10 | 20 May 20 Nov | 1259 |
| 1,250 | Treas 9½pc 1999‡‡ | 95 | 10.33 | 8.6 | 15 Jul 15 Jan | 1347 |
| 2,900 | Exch. 12¼pc 1999 | 109 | 10.68 | 21.8 | 26 Sep 26 Mar | 1264 |
| 1,252 | Treas. 10½pc 1999 | 99xd | 10.56 | 13.10 | 19 Nov 19 May | 1288 |
| 1,548 | Conversion 10¼pc 1999 | 98xd | 10.55 | 16.10 | 22 May 22 Nov | 1242 |
| 1,200 | Treas. 8½pc Ln 2000‡‡ | 88 | 10.27 | 21.6 | 28 Jan 28 Jul | 1338 |
| 1,554 | Conversion 9pc 2000‡‡ | 91 | 10.28 | 28.7 | 3 Sep 3 Mar | 1244 |
| 1,817 | Treas. 13pc 2000 | 114 | 10.66 | 27.6 | 14 Jan 14 Jul | 1299 |
| 1,050 | Treas 10pc 2001 | 97 | 10.38 | 20.7 | 26 Aug 26 Feb | 1280 |
| 1,250 | Treas. 14pc '98–01 | 117 | 10.87 | 16.10 | 22 Nov 22 May | 1306 |
| 802 | Conversion 9¾pc 2001 | 96 | 10.33 | 4.7 | 10 Feb 10 Aug | 1248 |
| 1,600 | Exch. 12pc '99–02 | 107 | 10.75 | 15.6 | 22 Jul 22 Jan | 1261 |
| 716 | Conversion 10pc 2002 | 98 | 10.27 | 4.9 | 11 Oct 11 Apr | 1241 |
| 1,450 | Treas 9¾pc 2002 | 96 | 10.23 | 21.7 | 27 Feb 27 Aug | 1349 |
| 1,300 | Exch. 9pc 2002 | 91xd | 10.16 | 13.10 | 19 May 19 Nov | 1272 |
| 1,800 | Treas. 13¾pc 2000–03 | 118 | 10.71 | 19.6 | 25 Jan 25 Jul | 1303 |
| 1,000 | Treas 10pc 2003 | 99 | 10.11 | 2.8 | 8 Mar 8 Sep | 1281 |
| 1,900 | Treas. 11½pc 2001–04 | 106 | 10.52 | 14.8 | 19 Sep 19 Mar | 1290 |
| 900 | Treas. 10pc 2004 | 99xd | 10.07 | 12.10 | 18 Nov 18 May | 1282 |
| 443 | Funding 3½pc '99–04 | 55 | 8.88 | 29.6 | 14 Jan 14 Jul | 1274 |
| 1,362 | Conversion 9½pc 2004 | 96 | 10.01 | 18.9 | 25 Apr 25 Oct | 1246 |

## BRITISH FUNDS—Contd

| Amount £m | Stock | Price £ | Red. Yld. | Last xd | Interest Due | City-line |
|---|---|---|---|---|---|---|
| | **Over Fifteen Years** | | | | | |
| 1,883 | Conversion 9½pc 2005 | 96 | 9.97 | 11.9 | 18 Oct 18 Apr | 1247 |
| 1,050 | Exch. 10½pc 2005 | 104 | 9.96 | 14.8 | 20 Mar 20 Sep | 1251 |
| 2,200 | Treas. 12½pc 2003–05 | 117 | 10.15 | 16.10 | 21 May 21 Nov | 1295 |
| 1,800 | Treas. 8pc 2002–06‡‡ | 84½xd | 9.91 | 10.11 | 5 Apr 5 Oct | 1334 |
| 702 | Conversion 9¾pc 2006 | 98xd | 9.92 | 9.10 | 15 May 15 Nov | 1249 |
| 3,150 | Treas. 11¾pc 2003–07 | 111 | 10.17 | 15.6 | 22 Jul 22 Jan | 1293 |
| 1,446 | Treas 8½pc 2007 ‡‡ | 89 | 9.77 | 9.6 | 16 Jan 16 Jul | 1339 |
| 1,250 | Treas. 13½pc '04–08 | 125 | 10.10 | 21.8 | 26 Sep 26 Mar | 1301 |
| 1,800 | Treas. 9pc 2008 ‡‡ | 94 | 9.70 | 6.9 | 13 Apr 13 Oct | 1343 |
| 1,000 | Treas 8pc 2009 | 85 | 9.64 | 21.8 | 25 Mar 25 Sep | 1336 |
| 367 | Conv 9pc Ln 2011 ‡‡ | 94 | 9.61 | 29.6 | 12 Jan 12 Jul | 1245 |
| 1,000 | Treas. 5½pc 2008–12‡‡ | 63 | 9.41 | 4.8 | 10 Mar 10 Sep | 1330 |
| 700 | Treas. 7¾pc 2012–15‡‡ | 82 | 9.57 | 19.6 | 26 Jul 26 Jan | 1332 |
| 1,000 | Exch. 12pc '13–'17 | 122xd | 9.64 | 6.11 | 12 Jun 12 Dec | 1260 |
| | **Undated** | | | | | |
| 359 | Consols 4pc | 41 | – | 26.6 | 1 Feb 1 Aug | 1239 |
| 1,909 | War Loan 3½pc‡‡ | 36xd | – | 25.10 | 1 Jun 1 Dec | 1352 |
| 140 | Conv. 3½pc '61 Aft | 62 | – | 25.8 | 1 Apr 1 Oct | 1243 |
| 56 | Treas. 3pc '66 Aft | 32 | – | 1.9 | 5 Apr 5 Oct | 1324 |
| 276 | Consols 2½pc | 25 | – | 1.9 | 5 Ja Ap Jul O | 1238 |
| 475 | Treas. 2½pc | 25 | – | 25.8 | 1 Apr 1 Oct | 1315 |
| | **Index-Linked** (b) | | ** | | | |
| 650 | Tr. 2pc '92‡‡(97.8) | 111 | 3.66 | 17.8 | 25 Mar 25 Sep | 1312 |
| 400 | Do. 2'94 (102.9) | 104xd | 3.28 | 10.10 | [illegible] | – |
| 1,000 | Do. 2pc '96(67.9) | 153 | 3.33 | 10.8 | 16 Mar 16 Sep | 1313 |
| 900 | Do 2½pc '01(78.3) | 129 | 3.63 | 18.8 | 24 Mar 24 Sep | 1316 |
| 800 | Do. 2½pc '03(78.8) | 126xd | 3.68 | 16.10 | 20 Nov 20 May | 1317 |
| 1,200 | Do. 2pc '06(69.5) | 129 | 3.67 | 12.6 | 19 Jan 19 Jul | 1314 |
| 950 | Do. 2½pc '09(78.8) | 121xd | 3.66 | 16.10 | 20 Nov 20 May | 1318 |
| 1,350 | Do. 2½pc '11(74.6) | 126 | 3.64 | 17.7 | 23 Feb 23 Aug | 1319 |
| 1,100 | Do. 2½pc '13(89.2) | 104 | 3.62 | 10.7 | 16 Feb 16 Aug | 1320 |
| 1,700 | Do. 2½pc '16(81.6) | 113 | 3.58 | 19.6 | 26 Jan 26 Jul | 1321 |
| 1,400 | Do. 2½pc '20(83.0) | 111 | 3.42 | 11.9 | 16 Oct 16 Apr | 1322 |
| 900 | Do. 2½pc '24‡‡(97.7) | 93 | 3.47 | 12.6 | 17 Jan 17 Jul | 1323 |

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1989:111.8 and for September1989:116.6

## INT. BANK AND O'SEAS

| Amount £m | Stock | Price £ | Red. Yld. | Last xd | Interest Due | City-line |
|---|---|---|---|---|---|---|
| 50 | African Dv Bk 11½Ln 2010 | 101 | 10.99 | 1.12 | 4 Jan 4 Jul | – |
| 100 | Asian Dev Bk 10¼pcLn2009 | 97 | 10.61 | 28.3 | 24 Mar 24 Sep | – |
| 100 | Australia 13½pc 2010 | 120 | 10.99 | 23.12 | 28 Jan 28 Jul | – |
| 100 | Do. 11½pcLn2015 | 105 | 10.91 | 22.3 | 26 Apr 26 Oct | – |
| 75 | Euro Inv Bk 11pc Ln 2002 | 101 | 10.78 | 23.2 | 23 Mar 23 Sep | – |
| 100 | Do. 10¾pc2004 | 97 | 10.77 | 24.10 | Apr Nov | – |
| 75 | Int-Am Dev Bk 12½pc 2003 | 110 | 10.96 | 7.12 | 8 Jan 8 Jul | – |
| 175 | Do. 9¾pcLn 2015 | 92 | 10.64 | 13.10 | 15 May 15 Nov | – |
| 75 | Mlysia 10¾pcLn 2009 | 92 | 11.66 | 23.12 | 31 Jan 31 Jul | – |
| 50 | Nat. Mexican States 16½pc 2008 | 114 | 14.20 | 24.1 | 1 Mar 15 Sep | – |

## CORPORATION LOANS

| Amount £m | Stock | Price £ | Red. Yld. | Last xd | Interest Due | City-line |
|---|---|---|---|---|---|---|
| 32 | Birmingham 13½pc 1989 | 99½xd | 11.20 | 20.10 | 20 May 20 Nov | 1858 |
| 45 | Do. 11½pc 2012 | 102½xd | 11.20 | 13.10 | 15 May 15 Nov | 1837 |
| 40 | GLC 6¾pc 1990–92 | 87½xd | 13.78 | 17.7 | 15 Feb 15 Aug | 2647 |
| 40 | Leeds 13½pc 2006 | 117 | 11.06 | 11.9 | 1 Apr 1 Oct | 3146 |
| 5 | Liverpool 3½pc Irred | 38xd | – | 1.9 | 1 Ja Apr Jn Oc | 3169 |
| 25 | LCC 6¾pc '88–90 | 95½ | 11.40 | 14.7 | 10 Jan 10 Jul | 3198 |
| 26 | Do. 3pc '20 Aft | 28xd | – | 1.11 | 1 Mar Jn S D | 3197 |
| 7 | Manchester 11½pc 2007 | 102½xd | 11.20 | 29.9 | 25 Apr 25 Oct | 3275 |

## COMMONWEALTH & AFRICAN LOANS

| Amount £m | Stock | Price £ | Red. Yld. | Last xd | Interest Due | City-line |
|---|---|---|---|---|---|---|
| 14 | NZ 7½pc 1988–92 | 88 | 12.10 | 1.12 | 1 Jan 1 Jul | – |
| 5 | Rhod 2½pc Non-Assd | 206 | – | – | 1 Apr 1 Oct | – |
| 4 | Do. 4½pc 87–92 Assd | 84½ | 9.33 | 14.7 | 7 Feb 7 Aug | – |

## LOANS

### Building Societies

### Public Board and Ind.

## FOREIGN BONDS & RAILS

## AMERICANS

Continued on next page

## Money Market Trust Funds

## Money Market Bank Accounts

UNIT TRUST NOTES

# LONDON SHARE SERVICE

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## AMERICANS—Contd

| Market Cap. £m | Stock | Price £ | Div Gross | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 739.4 | Hasbro Inc 50c | 14 | 16c | 0.7 | 1.8 | Ja No Au My | — |
| 2,257.1 | Honeywell $1½ | 51¼xd | $2.75 | 3.4 | 22.8 | Mar Jun S D | 2919 |
| 2,662.9 | Houston Inds. | 22 | $2.96 | 8.4 | 10.11 | Mr Jn Se De | — |
| 24,569.4 | IBM Corpn $1¼ | 61¼xd | $4.84 | 5.0 | 5.5 | Mar Jun S D | 2986 |
| 1.06 | House Storage/R Sys 1c | 50p | — | — | — | — | 2961 |
| 1,474.1 | Ingersoll-Rand $2 | 27xd | $1.20 | 2.7 | 16.5 | Mar Jun S D | 2979 |
| 1,832.8 | Lockheed Crpn. $1 | 27xd | $1.80 | 4.1 | 15.2 | Mar Jun S D | — |
| 238.2 | Lone Star Inds $1 | 14xd | $1.90 | 8.3 | 30.8 | My Se N Mar | 3216 |
| 773.0 | Louisiana Land 15c | 24xd | $1.00 | 2.5 | 29.8 | Mar Jun S D | 3222 |
| 718.3 | Lowe's 50c | 18½ | 48c | 1.7 | 11.7 | Jan Ap Jly Oc | — |
| 1,125.4 | Manuf. Hanover $1 | 23 | $3.28 | 8.9 | 26.6 | Jan Ap Jly Oc | 3279 |
| 1,789.3 | Merrill Lynch $1 | 16 | $1.00 | 3.7 | 31.10 | Feb My Au N | 3351 |
| 565.1 | Molex Inc. | 2227p | 3.3c | — | — | — | 3597 |
| 4,920.3 | Morgan (JP) $2½ | 27¼xd | $1.66 | 3.9 | 21.12 | Jan Ap Jly O | 3418 |
| 25,141.3 | Morris (Philip) | 26¼xd | $1.13 | 2.7 | 12.10 | — | 5161 |
| 10,553.8 | NYNEX $1 | 49¼ | $4.36 | 5.6 | 27.6 | F May Au N | 4740 |
| 3.11 | N'wide Legal Serv. | 23p | — | — | — | — | 5121 |

## CANADIANS

## BANKS, HP & LEASING

### Hire Purchase, Leasing, etc.

## BEERS, WINES & SPIRITS

## BUILDING, TIMBER, ROADS

## BUILDING, TIMBER, ROADS—Contd

## CHEMICALS, PLASTICS

## DRAPERY AND STORES

## DRAPERY AND STORES—Contd

## ELECTRICALS

## ENGINEERING

## ENGINEERING—Contd

## FOOD, GROCERIES, ETC

## HOTELS AND CATERERS

## INDUSTRIALS (Miscel.)

## INDUSTRIALS (Miscel.)—Contd

## INSURANCES

# LONDON SHARE SERVICE

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## LEISURE

| Market Cap. £m | Stock | | Price | Div Net | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|---|
| 27.2 | Airtours 10p | ♥ | 155 | †6.25 | 5.4 | 3.7 | Feb July | 1540 |
| 103.1 | Anglia TV | ▮ | 238 | †7.75 | 4.3 | 3.7 | Aug Jan. | 1611 |
| 61.4 | Avesco 1p | ▮ | 117 | g1.13 | 1.3 | 3.7 | October | 1710 |
| 4.06 | ♦BCE Hldgs 5p | ♥ | 14½ | 0.4 | 3.7 | 30.1 | Sept Mar | 1719 |
| 14.1 | Barr & W.A.T. 'A' | ♥ | 285 | †15.0 | 7.0 | 4.9 | Oct July | 1764 |
| – | ♥Bond Media | | 12 | Q2c | 8.0 | – | – | 4832 |
| 16.3 | Boosey & Hawkes | ♥ | 435xd | †10.0 | 3.2 | 30.10 | Jul Dec | 1873 |
| 5.26 | ♦Border T.V. | ♥ | 52 | 2.0 | 5.1 | 18.9 | Oct Feb | 1876 |
| 176.6 | Brent Walker 10p | ▮ | 348 | †11.0 | 4.2 | 16.10 | July Jan | 1945 |
| 122.5 | Do 6pc.Cv.Cm.Rd.Pf | ♥ | 93xd | 6.0 | 8.6 | 30.10 | Jan July | 1944 |
| 55.5 | Buckingham Int'l. 10p | ♥ | 93 | – | – | 5.87 | Jan May | 3152 |
| 17.8 | Campari Int. 20p | ♥ | 173 | 8.5 | 6.6 | 18.9 | Oct May | 2048 |
| 164.1 | Capital Radio 10p | ▮ | 1085 | †10.0 | 1.3 | 22.5 | Jan July | 2068 |
| 1,477.3 | Carlton Communctns | ♥ | 798 | †7.5 | 1.3 | 3.7 | Apr Aug | 2073 |
| 172.8 | Do. 6.5p Prf | ♥ | 186 | 6.5 | 8.2 | – | Jan July | 4876 |
| 21.4 | ♦Castle Comms. 5p | ♥ | 433xd | 8.5 | 2.6 | 30.10 | Apr Dec | 2079 |
| 171.7 | Central TV | ▮ | 675 | †25.5 | 5.0 | 16.10 | Nov May | 2091 |
| 36.1 | Chrysalis | ♥ | 138 | ±3.43 | 3.5 | 17.7 | Apr Aug | 2134 |
| 142.2 | ♦Cityvision 5p | ▮ | 129 | †Q0.5 | 0.5 | 2.10 | Jun Nov | 2150 |
| 8.81 | Classic Th'breds I£0.20 | ♥ | 13 | – | – | – | – | 1383 |
| 229.7 | Compass Group 5p | ▮ | 345 | †7.2 | 2.8 | 19.6 | Jan Jul | 1667 |
| 41.0 | European Leisure | ♥ | 83 | G08% | 2.4 | 3.4 | Apr Jan | 1413 |
| 13.9 | Ex Lands 10p | ♥ | 61 | 0.5 | 1.1 | 25.4 | May | 2513 |
| 23.9 | Expeditor Leis. 20p | ♥ | 93 | – | – | – | – | 3932 |
| 18.8 | Fairline Boats 10p | ♥ | 538 | †13.5 | – | 19.6 | Jan. July | 2534 |
| 290.8 | First Leisure | ▮ | 212 | †2.95 | 1.8 | 4.9 | Oct Apr | 2569 |
| 18.5 | ♦GWR Group 20p | ♥ | 620 | †3.0 | 0.6 | 14.8 | September | 4952 |
| 10.7 | Grampian TV A 10p | ▮ | 68 | 3.0 | 5.9 | 8.5 | Jan June | 2752 |
| 1.75 | ♦Greenwich Comm. | ♥ | 25 | – | – | – | – | 2772 |
| 78.2 | HTV Ord. | ▮ | 113 | 5.0 | 5.9 | 16.10 | Nov May. | 2797 |
| 32.3 | Hi-Tec Sports | ♥ | 83 | 4.5 | 7.2 | 16.10 | June Dec | 5112 |
| 6.84 | Int'l Media Comm. 5p | ♥ | 9 | – | – | 9'85 | – | 2483 |
| 16.3 | ♦Invicta Sound 10p | ♥ | 188 | R2.7 | 1.9 | – | July Feb | 5035 |
| 94.1 | ♦Kunick 10p | ▮ | 54 | †1.4 | 3.5 | 18.8 | Mar. Jul. | 4686 |
| 11.3 | Do 7p Rd. Pf | ♥ | 110 | 7.0 | 8.5 | 18.9 | Apr | 5252 |
| 172.5 | LWT 5p | ▮ | 197 | †5.7 | 3.9 | 3.4 | Jan Apr | 3233 |
| 56.2 | Leisure Inv 10p | ▮ | 37 | ±s1.75 | ‡ | 3.7 | Jan Aug | 3151 |

## PAPER, PRINTING, ADVERTISING – Contd

## PROPERTY

## MOTORS, AIRCRAFT TRADES

### Commercial Vehicles

### Components

### Garages and Distributors

## NEWSPAPERS, PUBLISHERS

## PAPER, PRINTING, ADVERTISING

## SHOES AND LEATHER

## SOUTH AFRICANS

## TEXTILES

## TEXTILES – Contd

## TOBACCOS

## TRANSPORT

## TRUSTS, FINANCE, LAND

### Investment Trusts

## TRUSTS, FINANCE, LAND – Contd

### Finance, Land, etc

## OIL AND GAS

## OIL AND GAS – Contd

## OVERSEAS TRADERS

## PLANTATIONS

### Rubbers, Palm Oil

### Teas

## MINES

### Central Rand

### Eastern Rand

### Far West Rand

### O.F.S.

### Diamond and Platinum

### Central African

### Finance

### Australians

### Tins

## MINES – Contd

| Market Cap. £m | Stock | Price | Div Net | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 12.0 | Gopeng Berhad M$0.50 | 75 | †Q10c | 3.2 | 31.7 | Sep | 2726 |
| 267.6 | Malaysia Mng. 10c | 65 | Q5c | 1.9 | 2.10 | Nov Aug | 3272 |
| 16.1 | Petaling SM1 | 160 | Q180c | 31.3 | 5.6 | Dec July | 3644 |
| 4.27 | Sungei Besi SM1 | 125 | Q70c | 13.4 | 17.7 | August | 4140 |
| 1.34 | Tanjong 15p | 90d | – | – | 6'81 | – | – |

### Miscellaneous

## THIRD MARKET

### NOTES

... for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks the latter being quoted in Irish currency.

| | | | |
|---|---|---|---|
| Albany Inv 20p | ♥ | 87 | ...... |
| Craig & Rose £1 | ♥ | 630 | ...... |
| Finlay Pkg. 5p | ♥ | 68 | ...... |
| Holt (Jos) 25p | ♥ | 1343 | ...... |

### IRISH

| | | |
|---|---|---|
| Cap. 8¼% Ln. 1991 | £96¼ | ...... |
| 9pc Cap Ln. 1996 | £97½ | ...... |
| Fin. 13% 97/02 | £116 | ...... |

| | | | |
|---|---|---|---|
| Arnotts | | 485 | +5 |
| Carroll (P.J.) | ♥ | 150 | ...... |
| Hall (R. & H.) | | 165 | ...... |
| Helton Hldgs | ♥ | 88 | –3 |
| IRG | | 228 | +1 |
| United Drug | | 130 | ...... |

## TRADITIONAL OPTIONS
### 3-month call rates

| Industrials | p |
|---|---|
| Allied-Lyons | 43 |
| Amstrad | 6½ |
| Astec (BSR) | 5¼ |
| BAT | 67 |
| BOC Grp | 44 |
| BTR | 37 |
| Barclays | 40 |
| Blue Circle | 28 |
| Boots | 23 |
| Bowaters | 39 |
| Brit Aerospace | 46 |
| British Steel | 9 |
| Brit. Telecom | 22 |
| Cadburys | 31 |
| Charter Cons | 42 |
| Comm Union | 40 |
| Courtaulds | 31 |
| Eurotunnel | 65 |
| FKI | 8 |
| FNFC | 22 |
| Gen Accident | 92 |
| GEC | 19 |
| Glaxo | 120 |
| Grand Met | 44 |
| Guardian | 19 |
| GKN | 33 |
| Hanson | 18 |
| Hawker Sidd | 55 |
| ICI | 90 |
| Jaguar | 85 |
| Ladbroke | 25 |
| Legal & Gen | 31 |
| Lex Service | 26 |
| Lloyds Bank | 31 |
| Lucas Inds | 54 |
| Marks & Spencer | 16 |
| Midland Bk | 26 |
| Morgan Grenfell | 38 |
| Nat West Bk | 23 |
| P & O Dfd | 51 |
| Polly Peck | 38 |
| Racal Elect. | 20 |
| RHM | 39 |
| Rank Org Ord | 72 |
| Reed Intnl | 34 |
| STC | 25 |
| Sears | 9 |
| Smithkline Beam A | 48 |
| TI | 38 |
| TSB | 9 |
| Tesco | 16 |
| Thorn EMI | 63 |
| Trust Houses | 25 |
| T&N | 16½ |
| Unilever | 57 |
| Vickers | 22 |
| Wellcome | 55 |

| Property | |
|---|---|
| Brit Land | 27 |
| Control Secs | 5 |
| Land Securities | 45 |
| MEPC | 45 |
| Mountleigh | 13 |

| Oils | |
|---|---|
| Brit Petroleum | 25 |
| Burmah Oil | 65 |
| Charterhall | 2½ |
| Conroy Petm | 9 |
| Premier | 10½ |
| Shell | 37 |
| Tuskar Res. | 12 |
| Ultramar | 28½ |

| Mines | |
|---|---|
| Lonrho | 23 |
| RTZ | 45 |

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

# CURRENCIES, MONEY AND CAPITAL MARKETS

## POUND SPOT- FORWARD AGAINST THE POUND

| Nov.10 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.5795 - 1.5860 | 1.5760 - 1.5770 | 0.83-0.81cpm | 6.24 | 2.48-2.45pm | 6.25 |
| Canada | 1.8405 - 1.8550 | 1.8445 - 1.8455 | 0.45-0.39cpm | 2.73 | 1.01-0.90pm | 2.07 |
| Netherlands | 3.30¾ - 3.31¾ | 3.30¾ - 3.31¾ | 1⅞-1¾cpm | 6.34 | 5⅛-5⅜pm | 4.53 |
| Belgium | 61.25 - 61.70 | 61.35 - 61.45 | 29-24cpm | 5.18 | 83-76pm | 5.18 |
| Denmark | 11.34½ - 11.42 | 11.34½ - 11.35½ | 2⅝-2¼orepm | 2.58 | 8¼-7⅝pm | 2.80 |
| Ireland | 1.1000 - 1.1055 | 1.1025 - 1.1035 | 0.40-0.35ppm | 4.08 | 1.00-0.90pm | 3.45 |
| W. Germany | 2.93¼ - 2.94 | 2.93½ - 2.94 | 1¾-1⅝pfpm | 6.89 | 4⅝-4½pm | 6.21 |
| Portugal | 249.95 - 251.50 | 250.15 - 251.15 | 35-17cpm | 1.24 | 16-66dis | -0.65 |
| Spain | 184.80 - 185.60 | 184.80 - 185.10 | 4-7cdis | -0.36 | 7-9dis | -0.17 |
| Italy | 2138¼ - 2147¼ | 2141¼ - 2142¼ | 6-4lirepm | 2.80 | 14-11pm | 2.33 |
| Norway | 10.92 - 10.99¾ | 10.92 - 10.93 | 3½-3¼orepm | 3.57 | 9½-9pm | 3.39 |
| France | 9.93¾ - 9.96½ | 9.95 - 9.96 | 4¼-3⅞cpm | 4.82 | 11¾-11½pm | 4.67 |
| Sweden | 10.16½ - 10.20¼ | 10.14¼ - 10.15¼ | 2⅞-2⅝orepm | 3.25 | 8½-7⅞pm | 3.10 |
| Japan | 225½ - 226¾ | 225½ - 226½ | 1⅝-1½ypm | 8.30 | 4⅝-4½pm | 8.08 |
| Austria | 20.61 - 20.70 | 20.65 - 20.68 | 11-10gropm | 6.10 | 33-29pm | 6.00 |
| Switzerland | 2.57½ - 2.58¾ | 2.57¼ - 2.58¼ | 1¾-1⅝cpm | 7.94 | 4⅝-4½pm | 7.07 |
| ECU | 1.4260 - 1.4280 | 1.4250 - 1.4270 | 0.53-0.50cpm | 4.33 | 1.53-1.48pm | 4.22 |

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 61.50-61.60 Six-month forward dollar 4.66-4.51cpm 12 months 8.35-8.25cpm

## DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

| Nov.10 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.5755 - 1.5860 | 1.5760 - 1.5770 | 0.83-0.81cpm | 6.24 | 2.46-2.45pm | 6.25 |
| Ireland† | 1.4295 - 1.4375 | 1.4310 - 1.4320 | 0.27-0.22cpm | 2.05 | 1.06-0.96pm | 2.82 |
| Canada | 1.1650 - 1.1700 | 1.1690 - 1.1700 | 0.33-0.36cdis | -3.54 | 1.03-1.09dis | -3.63 |
| Netherlands | 2.0880 - 2.1020 | 2.1005 - 2.1015 | 0.05-0.03cpm | 0.23 | 0.09-0.05pm | 0.13 |
| Belgium | 38.75 - 39.00 | 38.90 - 39.00 | 3.00-5.00cdis | -1.23 | 9.50-12.50dis | -1.13 |
| Denmark | 7.15½ - 7.21¼ | 7.19¾ - 7.20¼ | 2.10-2.35oredis | -3.71 | 6.10-6.50dis | -3.50 |
| W. Germany | 1.8490 - 1.8640 | 1.8625 - 1.8635 | 0.11-0.09pfpm | 0.65 | 0.18-0.15pm | 0.25 |
| Portugal | 158.25 - 158.75 | 158.65 - 158.75 | 60-70cdis | -4.71 | 260-285dis | -6.59 |
| Spain | 116.70 - 117.50 | 117.40 - 117.50 | 58-65cdis | -6.33 | 180-190dis | -6.35 |
| Italy | 1350½ - 1358¾ | 1358¼ - 1358¾ | 3.70-4.20liredis | -3.50 | 12.00-14.00dis | -3.84 |
| Norway | 6.91½ - 6.94½ | 6.92¾ - 6.93¼ | 1.35-1.60oredis | -2.55 | 4.90-5.20dis | -2.91 |
| France | 6.27 - 6.31¾ | 6.31¼ - 6.31¾ | 0.68-0.78cdis | -1.39 | 2.45-2.60dis | -1.60 |
| Sweden | 6.41¾ - 6.45 | 6.43¾ - 6.44¼ | 1.55-1.70oredis | -3.03 | 4.95-5.30dis | -3.17 |
| Japan | 142.40 - 143.40 | 143.30 - 143.40 | 0.28-0.26ypm | 2.27 | 0.67-0.64pm | 1.83 |
| Austria | 13.02¾ - 13.05¾ | 13.05¼ - 13.05¾ | 0.25pm-0.15grdis | 0.05 | par-1.40dis | 0.21 |
| Switzerland | 1.6230 - 1.6395 | 1.6370 - 1.6380 | 0.19-0.16cpm | 1.29 | 0.34-0.30pm | 0.78 |
| ECU | 1.1040 - 1.1110 | 1.1040 - 1.1050 | 0.18-0.16cpm | 1.85 | 0.57-0.54pm | 2.01 |

Commercial rates taken towards the end of London trading.† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.00-39.10.

## MONEY MARKETS

# Risks may grow for holders of sterling

AS NOVEMBER advances, the market is likely to become more wary of holding sterling. The early part of this month has not been a bad period for the pound, in spite of continuing rumblings about the Lawson resignation. But there is also the fact that Lloyds and NatWest banks have to sell a total of £1.775bn in the near future to cover possible bad debts on dollar-based loans.

**UK clearing bank base lending rate 15 per cent from October 5**

High interest rates mean it is expensive to hold a short position in borrowed sterling unless the speculator can be reasonably certain that the pound will fall far enough to cover the borrowing costs. This is the reason that sterling rarely slides gently, but tends to fall sharply or not at all.

With the Lawson saga moved off the front pages, there has been no strong reason to speculate against the pound, simply because the political situation has gone quiet and most important economic news is bunched into the latter part of the month.

The market believes the UK Government is unhappy with the present high level of interest rates, but it reluctantly agrees with the latest Bank of England Quarterly Bulletin that there is no alternative while inflation remains high and sterling is vulnerable. Higher rates are not ruled out, if there is a run on sterling, but the fact that another rise in base rates is unlikely may deter speculative pressure on the pound from increasing.

If the UK authorities are determined to resist higher rates, an attack on sterling may only be worth while if there is good cause, such as another set of bad trade figures on November 23.

## £ IN NEW YORK

| Nov.10 | Close | Previous Close |
|---|---|---|
| £ Spot | 1.5765-1.5775 | 1.5825-1.5835 |
| 1 month | 0.82-0.79pm | 0.83-0.81pm |
| 3 months | 2.46-2.42pm | 2.43-2.40pm |
| 12 months | 8.30-8.15pm | 8.15-8.05pm |

Forward premiums and discounts apply to the US dollar

## CURRENCY MOVEMENTS

| Nov.10 | Bank of England Index | Morgan** Guaranty Changes % |
|---|---|---|
| Sterling | 89.0 | -22.0 |
| U.S Dollar | 69.9 | -8.6 |
| Canadian Dollar | 105.4 | +2.0 |
| Austrian Schilling | 107.8 | +10.7 |
| Belgian Franc | 107.1 | -5.2 |
| Danish Krone | 105.5 | +0.4 |
| Deutsche Mark | 114.8 | +22.2 |
| Swiss Franc | 106.8 | +15.9 |
| Guilder | 111.8 | +14.5 |
| French Franc | [illegible] | [illegible] |
| Lira | [illegible] | -14.3 |
| Yen | 136.3 | -66.1 |

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for Nov 9

## STERLING INDEX

[illegible]

## OTHER CURRENCIES

[illegible]

## CURRENCY RATES

| Nov.10 | Bank rate % | Special* Drawing Rights | European † Currency Unit |
|---|---|---|---|
| [illegible rows] | | | |
| French Franc | 10¼ | 7.98750 | 6.97298 |
| Italian Lira | 13½ | 1722.35 | 1501.37 |
| Japanese Yen | 3¼ | 182.422 | 158.439 |
| Norway Krone | 8 | 8.81599 | 7.68610 |
| Spanish Peseta | - | N/A | 129.737 |
| Swedish Krona | 9½ | 8.18409 | 7.12615 |
| Swiss Franc | 6.00 | 1.06485 | 1.80415 |
| Greek Drach. | 20½ | 210.340 | 183.867 |
| Irish Punt | - | 0.88461 | 0.772431 |

# Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Nov 9


## SCOTLAND

The Financial Times proposes to publish this survey on:

**15th December 1989**

For a full editorial synopsis and advertisement details, please contact:

**Kenneth Swan on 031 - 220 1199**
Fax 031 - 220 1578

or write to him at:

Financial Times
37 George Street
Edinburgh
EH2 2HN

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER



## The Royal Bank of Scotland Group plc

**£200,000,000**
**FLOATING RATE NOTES 2005**

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from 9th November 1989 to 9th February 1990, the Notes will bear a Rate of Interest of 15⅛% per annum. The amount of interest payable on 9th February 1990 will be £190.62 per £5,000 Note, and £1906.16 per £50,000 Note.

AGENT BANK: CHARTERHOUSE BANK LIMITED

A member of The Securities Association.

CHARTERHOUSE


## EURO-CURRENCY INTEREST RATES

| Nov 10 | Short term | 7 Days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Sterling | 14 13/16-14⅞ | 14 13/16-14⅞ | 15-14 13/16 | 15 1/16-14 15/16 | 14⅞-14¾ | 14⅝-14½ |
| US Dollar | 8½-8⅜ | 8⅝-8½ | 8 9/16-8 7/16 | 8 9/16-8 7/16 | 8½-8⅜ | 8⅜-8¼ |
| Can. Dollar | 11⅞-11⅝ | 12¼-11⅞ | 12-11¾ | 12¼-11 15/16 | 12-11¾ | 11¾-11½ |
| D. Guilder | 8¼-8⅛ | 8¼-8⅛ | 8⅜-8¼ | 8⅜-8¼ | 8⅜-8¼ | 8⅜-8¼ |
| Sw. Franc | 7-6¾ | 7¼-6⅞ | 7⅜-7¼ | 7 11/16-7 9/16 | 7 13/16-7 11/16 | 7 13/16-7 11/16 |
| Deutschmark | 7¼-7⅛ | 7½-7⅜ | 7⅝-7½ | 8⅛-8 | 8¼-8⅛ | 8¼-8⅛ |
| Fr. Franc | 9⅞-9⅝ | 9¾-9½ | 10-9⅞ | 10¼-10⅛ | 10¼-10⅛ | 10¼-10 |
| Italian Lira | 12-10 | 11½-10½ | 12¼-11¾ | 12½-12 | 12⅝-12⅜ | 12⅞-12½ |
| [illegible rows] | | | | | | |

Long term Eurodollars: [illegible]

## EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100

## FT LONDON INTERBANK FIXING

[illegible]

## MONEY RATES

### NEW YORK

Treasury Bills and Bonds

[illegible]

Fed.funds at intervention 8½ | Two year 7.80 | 30-year 7.89

| Nov.10 | Overnight | One Month | Two Months | Three Months | Six Months | Lombard Intervention |
|---|---|---|---|---|---|---|
| Frankfurt | 7.60-7.70 | 7.75-7.85 | 8.10-8.25 | 8.10-8.25 | 8.10-8.25 | 8.00 |
| Paris | 9⅜-9½ | 9 15/16-10 1/16 | 10 1/16-10 3/16 | 10¼-10⅜ | 10 5/16-10 7/16 | 9.50 |
| Zurich | 6¼-6⅝ | 7¼-7⅜ | - | 7⅝-7⅞ | - | - |
| Amsterdam | 8.18-8.31 | 8.25-8.32 | - | 8.30-8.40 | - | - |
| Tokyo | 5⅞-5 15/16 | 6 3/16-6 5/16 | - | 6⅝-6 11/16 | - | - |
| Milan | 12¼-12⅝ | 12¼-12¾ | - | 12⅝-13⅛ | - | - |
| Brussels | 10.50 | 9⅜-9⅝ | - | 9⅜-9⅝ | - | - |
| Dublin | 9⅜-9½ | 10 11/16-10 13/16 | 11¼-11⅜ | 11½-11⅝ | 11 11/16-11 13/16 | - |

## LONDON MONEY RATES

| Nov 10 | Overnight | 7 days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Interbank Offer | 15 | 14 15/16 | 15 1/16 | 15 1/16 | 14⅞ | 14⅝ |
| Interbank Bid | 10 | 14 13/16 | 14 15/16 | 14 15/16 | 14¾ | 14½ |
| Sterling CDs | - | - | 15 | 14 15/16 | 14¾ | 14⅝ |
| Local Authority Deps. | 14⅞ | 14 15/16 | 15 | 15 | 14 13/16 | 14¾ |
| Local Authority Bonds | - | - | - | - | - | - |
| Discount Mkt Deps. | 14 13/16 | 14⅞ | 14⅞ | 14⅝ | - | - |
| Company Deposits | - | - | 15 1/16 | 15 1/16 | 14¾ | 14 9/16 |
| Finance House Deposits | - | - | 14 15/16 | 14 15/16 | 14⅝ | 14⅜ |
| Treasury Bills (Buy) | - | - | 14 15/16 | 14 9/16 | - | - |
| Bank Bills (Buy) | - | - | 14 15/16 | 14 15/16 | 13 15/16 | - |
| Fine Trade Bills (Buy) | - | - | 15 5/16 | 15⅛ | 14⅞ | - |
| Dollar CDs | - | - | 8.50 | 8.50 | 8.33 | 8.25 |
| SDR Linked Dep. Offer | - | - | 8 13/16 | 9 1/16 | 9⅛ | 9 |
| SDR Linked Dep. Bid | - | - | 8 11/16 | 8 13/16 | 8⅞ | 8¾ |
| ECU Linked Dep. Offer | - | - | 10 5/16 | 10 3/16 | 10 5/16 | 10⅜ |
| ECU Linked Dep. Bid | - | - | 10 3/16 | 10 1/16 | 10 3/16 | 10¼ |

Treasury Bills (sell): one-month 14 13/16 per cent; three months 14½ per cent; Bank Bills (sell): one-month 14 13/16 per cent; three months 14 13/16 per cent; Treasury Bills; Average tender rate of discount 14.3433 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 31, 1989. Agreed rates for period November 26 1989 to December 25, 1989. Scheme I: 15.66 p.c., Schemes II & III: 16.22 p.c. Reference rate for period Sept 30,1989 to October 31, 1989, Scheme IV&V. 15.084 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from November 1, 1989; Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989. Deposits withdrawn for cash 5 per cent.

## BANK OF ENGLAND TREASURY BILL TENDER

| | Nov.10 | Nov.3 | | Nov.10 | Nov.3 |
|---|---|---|---|---|---|
| Bills on offer | £500m | £500m | Top accepted rate of discount | 14.3794% | 14.5799% |
| Total of applications | £2831m | £1745m | Average rate of discount | 14.3433% | 14.5674% |
| Total allocated | £500m | £500m | Average yield | 14.8752% | 15.1164% |
| Minimum accepted bid | £97.475 | £93.365 | Amount on offer at next tender | £500m | £500m |
| Allotment at minimum level | 42% | 77% | Minimum accepted bid 182 days | £93.175 | £93.010 |

## WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

## CHICAGO

[illegible]

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS<br>Figures in parentheses show number of stocks per grouping | FRIDAY NOVEMBER 10 1989<br>US Dollar Index | % change since Dec.30 '88 | Pound Sterling Index | Local Currency Index | % change local currency since Dec.30 '88 | Gross Div. Yield | THURSDAY NOVEMBER 9 1989<br>US Dollar Index | Pound Sterling Index | Local Currency Index | DOLLAR INDEX<br>1989 High | 1989 Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (85) | 148.50 | +2.8 | 139.65 | 125.48 | +11.5 | 5.30 | 150.41 | 140.56 | 126.70 | 160.41 | 128.28 | 151.96 |
| Austria (19) | 139.20 | +45.1 | 130.91 | 194.19 | +51.4 | 1.81 | 134.97 | 126.13 | 129.49 | 172.22 | 92.84 | 98.34 |
| Belgium (63) | 138.89 | +2.8 | 130.62 | 133.75 | +7.5 | 4.14 | 138.21 | 129.16 | 132.24 | 144.49 | 125.58 | 134.26 |
| Canada (122) | 149.11 | +18.8 | 140.23 | 126.28 | +18.4 | 3.20 | 148.89 | 139.14 | 125.87 | 154.17 | 124.67 | 118.85 |
| Denmark (36) | 213.60 | +25.4 | 200.88 | 209.17 | +31.6 | 1.51 | 212.00 | 198.12 | 206.31 | 219.89 | 165.35 | 148.21 |
| Finland (26) | 122.08 | -6.7 | 114.81 | 109.76 | -4.0 | 2.57 | 123.55 | 115.46 | 110.43 | 159.16 | 122.08 | 129.19 |
| France (127) | 130.73 | +13.6 | 122.94 | 129.50 | +18.5 | 2.87 | 130.54 | 121.99 | 128.33 | 139.94 | 112.57 | 111.95 |
| West Germany (96) | 95.73 | +8.8 | 90.03 | 92.72 | +14.3 | 2.22 | 94.80 | 88.59 | 91.03 | 103.84 | 79.56 | 85.67 |
| Hong Kong (48) | 117.21 | +4.8 | 110.23 | 117.56 | +4.9 | 4.84 | 117.29 | 109.60 | 117.66 | 140.33 | 86.41 | 105.84 |
| Ireland (17) | 154.98 | +17.6 | 145.75 | 152.55 | +23.6 | 2.90 | 156.79 | 146.52 | 153.37 | 166.69 | 125.00 | 131.20 |
| Italy (97) | 86.69 | +1.8 | 81.53 | 87.98 | +5.9 | 2.60 | 87.29 | 81.57 | 88.12 | 96.73 | 74.97 | 86.73 |
| Japan (455) | 185.98 | -2.9 | 174.90 | 168.52 | +11.4 | 0.48 | 186.10 | 173.91 | 167.98 | 200.11 | 164.22 | 182.95 |
| Malaysia (36) | 193.98 | +35.2 | 182.43 | 201.60 | +34.7 | 2.63 | 194.43 | 181.69 | 201.95 | 209.22 | 143.35 | 139.69 |
| Mexico (13) | 290.31 | +79.4 | 273.02 | 835.73 | +106.5 | 0.62 | 292.33 | 273.19 | 841.25 | 326.61 | 153.32 | 168.71 |
| Netherland (43) | 123.46 | +9.8 | 116.11 | 118.39 | +15.2 | 4.48 | 123.93 | 115.81 | 117.96 | 131.72 | 110.63 | 109.57 |
| New Zealand (18) | 74.59 | +10.3 | 70.15 | 67.47 | +18.4 | 5.21 | 74.19 | 69.33 | 67.15 | 88.18 | 62.64 | 74.25 |
| Norway (24) | 172.40 | +24.1 | 162.13 | 162.17 | +31.0 | 1.59 | 173.78 | 162.40 | 162.75 | 198.39 | 139.92 | 122.20 |
| Singapore (26) | 157.53 | +25.9 | 148.15 | 142.21 | +28.9 | 2.08 | 156.30 | 146.07 | 140.96 | 170.62 | 124.57 | 120.88 |
| South Africa (60) | 165.84 | +41.9 | 155.96 | 141.06 | +43.6 | 4.00 | 167.61 | 156.63 | 142.56 | 167.61 | 115.35 | 123.66 |
| Spain (43) | 153.97 | +3.8 | 144.80 | 136.99 | +7.6 | 3.82 | 156.12 | 145.90 | 137.61 | 169.75 | 143.14 | 152.36 |
| Sweden (35) | 173.61 | +20.1 | 163.27 | 165.52 | +26.2 | 2.07 | 174.91 | 163.45 | 166.04 | 186.94 | 138.45 | 133.45 |
| Switzerland (64) | 85.75 | +9.8 | 80.64 | 87.05 | +19.7 | 2.17 | 85.94 | 80.31 | 86.36 | 94.16 | 67.81 | 84.74 |
| United Kingdom (306) | 142.98 | +5.7 | 134.47 | 134.47 | +21.3 | 4.53 | 143.05 | 133.68 | 133.68 | 158.41 | 133.28 | 137.47 |
| USA (546) | 137.80 | +21.8 | 129.59 | 137.80 | +21.8 | 3.36 | 136.86 | 127.89 | 136.86 | 146.29 | 112.13 | 109.37 |
| Europe (996) | 123.63 | +7.8 | 116.27 | 118.21 | +17.6 | 3.55 | 123.61 | 115.52 | 117.36 | 132.95 | 112.63 | 114.88 |
| Nordic (121) | 167.14 | +19.7 | 157.18 | 154.56 | +25.4 | 1.84 | 167.48 | 156.51 | 154.07 | 178.38 | 137.95 | 127.22 |
| Pacific Basin (668) | 181.81 | -2.4 | 170.98 | 164.74 | +11.3 | 0.73 | 181.99 | 170.07 | 164.29 | 194.72 | 160.44 | 178.61 |
| Euro-Pacific (1664) | 158.61 | +0.6 | 149.17 | 146.12 | +13.1 | 1.62 | 158.71 | 148.32 | 145.52 | 166.98 | 141.56 | 153.12 |
| North America (668) | 138.37 | +21.6 | 130.13 | 137.09 | +21.4 | 3.35 | 137.48 | 128.47 | 136.18 | 146.66 | 112.79 | 109.74 |
| Europe Ex. UK (690) | 110.98 | +9.2 | 104.37 | 108.25 | +14.7 | 2.85 | 110.92 | 103.65 | 107.38 | 118.51 | 96.30 | 100.61 |
| Pacific Ex. Japan (213) | 131.79 | +5.8 | 123.94 | 117.74 | +10.4 | 4.84 | 132.64 | 123.95 | 118.29 | 140.05 | 111.93 | 126.59 |
| World Ex. US (1859) | 158.43 | +1.5 | 149.00 | 145.64 | +13.5 | 1.70 | 158.54 | 148.16 | 145.06 | 166.35 | 141.49 | 151.56 |
| World Ex. UK (2099) | 150.73 | +7.6 | 141.75 | 143.79 | +15.5 | 2.01 | 150.44 | 140.58 | 143.10 | 156.04 | 136.98 | 135.18 |
| World Ex. So. Af. (2345) | 149.92 | +7.2 | 140.99 | 142.91 | +15.8 | 2.22 | 149.65 | 139.85 | 142.20 | 155.92 | 136.67 | 135.43 |
| World Ex. Japan (1950) | 132.98 | +15.9 | 125.05 | 129.77 | +19.7 | 3.49 | 132.52 | 123.84 | 128.98 | 140.43 | 114.51 | 112.47 |
| The World Index (2405) | 150.02 | +7.4 | 141.08 | 142.90 | +16.0 | 2.23 | 149.76 | 139.95 | 142.20 | 155.89 | 136.68 | 135.36 |

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

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CONSTITUENT CHANGES: Insertions: Euro Disneyland (France) and Storebrand A/S (Norway). Deletions: Victoria Hldgs.(50%) (Germany) and Storebrand (Norway). Name change: Kinder-Care Lrning to Enstar (US).(7/11/89).

## EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 37,453

A=Ask B=Bid C=Call P=Put

## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| ABN Bank | 15 | City Merchants Bank | 15 | Mount Banking | 15 |
| Adam & Company | 15 | Clydesdale Bank | 15 | Nat. Bk. of Kuwait | 15 |
| Allied Trust Bank | 15 | Comm. Bk. N. East | 15 | NatWestminster | 15 |
| Allied Irish Bank | 15 | Co-operative Bank | *15 | Northern Bank Ltd | 15 |
| ● Henry Ansbacher | 15 | Coutts & Co | 15 | Norwich Gen. Trust | 15 |
| Associates Cap Corp | 14 | Cyprus Popular Bk | 15 | PRIVATbanken Limited | 15 |
| Authority Bank | 15 | Dunbar Bank PLC | 15 | Provincial Bank PLC | 16 |
| ● B & C Merchant Bank | 15 | Duncan Lawrie | 15 | R. Raphael & Sons | 15 |
| Bank of Baroda | 15 | Equatorial Bank plc | 15 | Roxburghe G'rantee | 15½ |
| Banco Bilbao Vizcaya | 15 | Exeter Trust Ltd | 15½ | Royal Bk of Scotland | 15 |
| Bank Hapoalim | 15 | Financial & Gen. Bank | 15 | Royal Trust Bank | 15 |
| Bank Credit & Comm | 15 | First National Bank Plc. | 16 | ● Smith & Williamson Secs. | 15 |
| Bank of Cyprus | 15 | ● Robert Fleming & Co. | 15 | Standard Chartered | 15 |
| Bank of Ireland | 15 | Robert Fraser & Ptrs. | 15½ | TSB | 15 |
| Bank of India | 15 | Girobank | 15 | United Bk of Kuwait | 15 |
| Bank of Scotland | 15 | ● Guinness Mahon | 15 | United Mizrahi Bank | 15 |
| Banque Belge Ltd | 15 | HFC Bank plc | 15 | Unity Trust Bank Plc | 15 |
| Barclays Bank | 15 | ● Hambros Bank | 15 | Western Trust | 15 |
| Benchmark Bank PLC | 15 | Hampshire Trust Plc | 15½ | Westpac Bank Corp. | 15 |
| Brit. Bk of Mid East | 15 | Heritable & Gen Inv Bnk. | 15 | Whiteaway Laidlaw | 15 |
| ● Brown Shipley | 15 | ● Hill Samuel | §15 | Yorkshire Bank | 15 |
| Business Mtge Bank PLC | 15½ | C. Hoare & Co. | 15 | | |
| CL Bank Nederland | 15 | Hongkong & Shangh | 15 | | |
| ● Charterhouse Bank | 15 | ● Leopold Joseph & Sons | 15 | | |
| Citibank NA | 15 | Lloyds Bank | 15 | | |
| | | McDonnell Douglas Bnk | 15 | | |
| | | Meghraj Bank Ltd | 15 | | |
| | | Midland Bank | 15 | | |

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JOTTER PAD

## LONDON RECENT ISSUES

### EQUITIES

[illegible]

### FIXED INTEREST STOCKS

[illegible]

### RIGHTS OFFERS

[illegible]

## CROSSWORD

No.7,088 Set by TANTALUS

**ACROSS**

1 Fishing vessel by a North Sea bank? (6)
4 Boxed and threw away (8)
10 1 down shore (9)
11 Girl points to communion plate (5)
12 Morsel for a cat (4)
13 Bird's beak *finds plant* (10)
15 Record one's poem for part of series (7)
16 Being with specialist, I try losing 9 (6)
19 I go to nicer gathering – it's pacific (6)
21 French couturier and a mother see miniature scene (7)
23 Underworld conclusion is a revelation (10)
25 Soldier on foot is present (4)
27 Instruct *attendants* (5)
28 First shopper leaves new chain-store to see recluse (9)
29 Spinster holds legal document showing wrong-doings (8)
30 Writer has no continental flag (6)

**DOWN**

1 Announced at customs-house? (8)
2 Good liner designed by boatman (9)
3 Is Sue joining up? (4)
5 Select group prepare bed by the lake (7)
6 A quiet place for botanical growth (10)
7 Dish for cooked tripe (5)
8 Offer enticement for many to fish (6)
9 The bull is on board (6)
14 Once solemn, perhaps sleep is the answer (10)
17 Arranging trip to India without one penny is habit! (9)
18 Leopard has no right on sacred area (8)
20 Joint leading performer dodged first apple! (7)
21 Straightforward guide (6)
22 Does lady tumble in part of temple? (8)
24 Breaks biscuits (5)
26 Attend to memorandum (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 25.

# WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | ITALY (continued) | SWEDEN | NETHERLANDS | SWITZERLAND | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | NORWAY | SPAIN | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | SINGAPORE

## CANADA

TORONTO

*Closing prices November 10*

MONTREAL

Closing prices November 10

Total Sales 5,613,475 shares.

## INDICES

### NEW YORK

| DOW JONES | Nov. 10 | Nov. 9 | Nov. 8 | Nov. 7 | 1989 HIGH | 1989 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| ϕIndustrials | 2625.61 | 2603.69 | 2623.36 | 2597.13 | 2791.41 (9/10) | 2144.64 (3/1) | 2791.41 (9/10/89) | 41.22 (2/7/32) |
| Home Bonds | 93.32 | 93.18 | 93.00 | 92.89 | 94.15 (2/8) | 87.35 (23/3) | — | — |
| Transport | 1203.41 | 1192.39 | 1199.15 | 1188.30 | 1532.01 (5/9) | 959.95 (3/1) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 220.95 | 219.50 | 220.95 | 219.63 | 221.64 (8/8) | 181.84 (24/2) | 227.83 (22/1/87) | 10.50 (8/4/32) |

ϕDay's High 2635.86 (2634.84) Low 2603.07 (2595.90)

| STANDARD AND POOR'S | Nov. 10 | Nov. 9 | Nov. 8 | Nov. 7 | 1989 HIGH | 1989 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 339.10 | 336.57 | 338.15 | 334.81 | 359.80 (9/10) | 275.31 (3/1) | 359.80 (9/10/89) | 4.40 (1/6/32) |
| Industrials | 386.45 | 383.22 | 385.14 | 381.39 | 410.49 (9/10) | 318.66 (3/1) | 410.49 (9/10/89) | 3.62 (21/6/32) |
| Financial | 32.55 | 32.50 | 32.55 | 31.99 | 35.24 (9/10) | 24.30 (3/1) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 187.98 | 186.75 | 187.48 | 185.74 | 199.34 (9/10) | 154.98 (3/1) | 199.34 (9/10/89) | 4.46 (25/4/42) |
| Amex Mkt. Value | 371.47 | 370.41 | 370.72 | 368.51 | 397.03 (10/10) | 305.24 (3/1) | 397.03 (10/10/89) | 29.31 (9/12/72) |
| NASDAQ Composite | 456.19 | 454.07 | 454.05 | 449.40 | 485.73 (9/10) | 378.56 (3/1) | 485.73 (9/10/89) | 54.87 (31/10/72) |

| | Nov 3 | Oct 27 | Oct 20 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 3.93 | 3.97 | 3.83 | 3.62 |

| | Nov 8 | Nov 1 | Oct 25 | year ago (approx.) |
|---|---|---|---|---|
| S & P Industrial div. yield | 3.00 | 2.97 | 2.95 | 3.19 |
| S & P Indl. P/E ratio | 14.29 | 14.25 | 14.31 | 12.60 |

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| Amax | 2,222,500 | 23 | + ⅛ |
| Pinnacle W Cap | 2,075,100 | 7¾ | − 1¼ |
| TJX | 1,901,700 | 15 | − ⅛ |
| Philip Morris | 1,840,800 | 41⅞ | + ⅛ |
| Oxy Pet | 1,557,900 | 31 | + 3 |
| McDonalds | 1,454,500 | 31⅝ | + ½ |
| Allergan | 1,440,900 | 16⅛ | − ⅞ |
| Boeing | 1,431,200 | 56 | + ⅝ |
| Bristol Myers Sq | 1,413,200 | 54⅜ | + ⅜ |
| Avon Prod | 1,411,400 | 36⅜ | + 5½ |

### TRADING ACTIVITY

| † Volume Millions | Nov 10 | Nov 9 | Nov 8 |
|---|---|---|---|
| New York | 131.800 | 144.468 | 171.134 |
| Amex | 12.506 | 12.798 | 13.395 |
| NASDAQ | 109.047 | 126.789 | 137.905 |
| Issues Traded | 1,938 | 1,945 | 1,957 |
| Rises | 890 | 649 | 1,076 |
| Falls | 545 | 708 | 408 |
| Unchanged | 503 | 489 | 473 |
| New Highs | 50 | 46 | 47 |
| New Lows | 55 | 59 | 51 |

### CANADA

| TORONTO | Nov 10 | Nov 9 | Nov 8 | Nov 7 | 1989 HIGH | 1989 LOW |
|---|---|---|---|---|---|---|
| Metals & Minerals | 3426.5 | 3418.2 | 3421.6 | 3401.8 | 3919.2 (1/9) | 3207.5 (3/1) |
| Composite | 3943.7 | 3931.5 | 3937.0 | 3923.2 | 4037.8 (6/10) | 3350.5 (6/1) |
| MONTREAL Portfolio | 2009.22 | 2002.46 | 2003.81 | 1997.70 | 2069.68(10/10) | 1677.48 (3/1) |

Base values of all Indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

| | Nov. 10 | Nov. 9 | Nov. 8 | Nov. 7 | 1989 HIGH | 1989 LOW |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ordinaries (1/1/80) | 1636.6 | 1650.4 | 1658.4 | 1648.2 | 1781.8 (29/8) | 1412.9 (7/4) |
| All Mining (1/1/80) | 821.5 | 828.6 | 832.1 | 812.1 | 875.1 (29/8) | 652.6 (7/4) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (30/12/84) | 401.09 | 382.01 | 371.77 | 370.84 | 515.09 (11/10) | 219.5 (2/1) |
| **BELGIUM** | | | | | | |
| Brussels SE (1/1/80) | 6391.94 | 6336.70 | 6275.90 | 6217.81 | 6805.28 (26/9) | 5519.30 (4/1) |
| **DENMARK** | | | | | | |
| Copenhagen SE (3/1/83) | 344.04 | 342.68 | 340.80 | 340.82 | 356.65 (12/7) | 275.49 (27/2) |
| **FINLAND** | | | | | | |
| Unitas General (1975) | 646.5 | 652.9 | 657.4 | 659.7 | 815.8 (18/4) | 646.5 (10/11) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | 507.1 | 507.6 | 501.7 | 500.6 | 561.6 (11/10) | 417.9 (4/1) |
| Ind. Tendance(30/12/88) | 116.1 | 116.1 | 114.5 | 113.3 | 128.1 (10/10) | 97.5 (27/2) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 634.84 | 623.07 | 610.75 | 608.23 | 690.91 (10/10) | 535.78 (27/2) |
| Commerzbank (1/12/53) | 1862.3 | 1829.0 | 1792.9 | 1783.7 | 2056.8 (10/10) | 1595.7 (27/2) |
| DAX (30/12/87) | 1496.69 | 1462.96 | 1441.79 | 1428.07 | 1657.61 (8/9) | 1271.70 (23/2) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | 2776.86 | 2781.44 | 2731.07 | 2738.09 | 3309.64 (15/5) | 2093.61 (5/6) |
| **IRELAND** | | | | | | |
| ISEQ Overall (4/1/88) | 1656.68 | 1660.15 | 1661.22 | 1660.29 | 1848.93 (10/8) | 1360.64 (10/1) |
| **ITALY** | | | | | | |
| Banca Com. Ital. (1972) | 647.41 | 648.56 | 646.36 | 648.98 | 734.84 (31/8) | 577.49 (28/2) |
| **JAPAN** | | | | | | |
| Nikkei (16/5/49) | 35663.20 | 35657.42 | 35595.59 | 35270.46 | 35689.98 (28/9) | 30183.79 (5/1) |
| Tokyo SE (Topix) (4/1/68) | 2692.77 | 2684.12 | 2674.31 | 2663.39 | 2703.58 (2/10) | 2366.91 (6/1) |
| 2nd Section (4/1/68) | 3672.79 | 3664.61 | 3660.51 | 3648.93 | 3804.11 (9/10) | 2774.38 (27/3) |
| **NETHERLANDS** | | | | | | |
| CBS TU.Rtn.Gen.(End 1983) | 249.7 | 248.7 | 249.0 | 244.8 | 272.7 (21/8) | 208.3 (3/1) |
| CBS All Shr (End 1983) | 191.9 | 191.2 | 191.3 | 188.2 | 210.5 (8/9) | 166.7 (1/3) |
| **NORWAY** | | | | | | |
| Oslo SE (2/1/83) | 628.43 | 624.91 | 623.10 | 620.14 | 695.50 (28/9) | 467.17 (2/1) |
| **PHILIPPINES** | | | | | | |
| Manila Comp (2/1/85) | 1363.27 | 1363.23 | 1356.73 | 1342.14 | 1363.27 (10/11) | 804.62 (6/2) |
| **SINGAPORE** | | | | | | |
| Straits Times Ind. (30/12/66) | 1331.99 | 1325.24 | 1321.31 | 1320.84 | 1431.85 (12/10) | 1030.69 (4/1) |
| **SOUTH AFRICA** | | | | | | |
| JSE Gold (28/9/78) | 1900.0§ | 1940.0 | 1925.0 | 1887.0 | 1940.0 (9/11) | 1291.0 (15/2) |
| JSE Industrial (28/9/78) | 2575.0§ | 2580.0 | 2565.0 | 2557.0 | 2838.0 (25/8) | 1961.0 (3/1) |
| **SOUTH KOREA**** | | | | | | |
| Korea Comp Ex. (4/1/80) | 927.59 | 907.21 | 872.88 | 877.76 | 1007.80 (3/4) | 846.30 (1/7) |
| **SPAIN** | | | | | | |
| Madrid SE (30/12/85) | 300.39 | (c) | 301.13 | 301.60 | 328.93 (13/9) | 268.61 (1/5) |
| **SWEDEN** | | | | | | |
| Jacobson & P. (31/12/56) | 4200.6 | 4189.6 | 4169.5 | 4134.9 | 4660.3 (16/8) | 3333.9 (3/1) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Ind. (31/12/58) | 738.6 | 735.2 | 734.1 | 723.2 | 829.1 (6/9) | 613.1 (3/1) |
| **TAIWAN**** | | | | | | |
| Weighted Price (30/6/66) | 10127.05 | 10134.13 | 10119.85 | 10025.29 | 10773.11 (25/9) | 4873.01 (5/1) |
| **THAILAND** | | | | | | |
| Bangkok SET (30/4/75) | 722.74 | 716.26 | 704.24 | 702.05 | 724.93 (13/9) | 386.73 (2/1) |
| **WORLD** | | | | | | |
| M.S. Capital Intl. (1/1/70) | (u) | 528.5 | 526.6 | 522.4 | 551.2 (3/8) | 487.6 (13/6) |

**Saturday Nov. 4: Taiwan Weighted Price: 10492.45. Korea Comp Ex. 888.46.
§ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

### TOKYO - Most Active Stocks

Friday November 10 1989

| | Stocks Traded | Closing Prices | Change on day | | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|---|---|---|---|
| Aoki Constr | 59.2m | 1,670 | +70 | Kawasaki Steel | 21.2m | 801 | -6 |
| IHI | 38.7m | 1,390 | +10 | Tobu Railway | 18.7m | 1,740 | +50 |
| Tokyo Tatemono | 36.9m | 2,240 | +110 | Marubeni | 18.5m | 901 | +25 |
| Tokyo Gas | 34.8m | 1,200 | +60 | C.Itoh | 17.5m | 1,070 | +40 |
| NKK | 32.7m | 743 | +3 | Nippon Steel | 15.1m | 737 | -4 |


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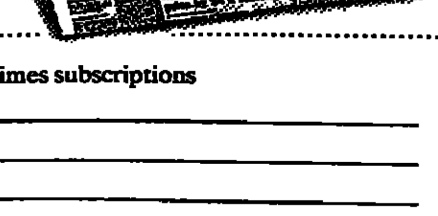

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*4pm prices November 10*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| | | – A – A – A – | | | | | | | | |
| 37½ | 21¾ | AAR | .48 | 1.4 | 21 | 161 | 34⅞ | 34⅜ | 34⅜ | – ⅛ |
| 9⅝ | 8⅞ | ACM n | 1.01 | 11. | | 247 | 9⅜ | 9¼ | 9¼ | – ⅛ |
| 11⅝ | 10¾ | ACMIn | | 11. | | 483 | 11⅜ | 11¼ | 11⅜ | + ⅛ |
| 10⅛ | 8 | ACM M | n1.01 | 12. | | 189 | 8¾ | 8⅝ | 8⅝ | – ⅛ |
| 11½ | 10 | ACM Sc | 1.26 | 11. | | 711 | 11⅛ | 11 | 11⅛ | |
| 9⅝ | 8⅞ | ACMSp | 1.01 | 11. | | 410 | 9⅛ | 9 | 9 | – ⅛ |
| 16 | 11½ | AL Lab | .12 | .7 | 17 | 18 | 16⅞ | 16⅞ | 16⅞ | + ⅛ |
| 6⅛ | 4½ | AM Intl | | | 10 | 465 | 4⅞ | 4⅞ | 4⅞ | – ⅛ |
| 23½ | 20⅝ | AM In pf | 2 | 9.6 | | 16 | 21⅛ | 21 | 21⅛ | |
| 107¼ | 46½ | AMR | | | 8 | 3447 | 70½ | 69⅛ | 69½ | – ½ |
| 27 | 25 | ANR pf | 2.67 | 10. | | 15 | 25⅝ | 25⅝ | 25⅝ | + ¼ |
| 6½ | 3⅝ | ARX | | | | 16 | 3⅞ | 3⅝ | 3⅝ | – ⅛ |
| 54⅞ | 37¼ | ASA | 3a | 5.8 | | z1957 | 61⅞ | 60⅞ | 61⅞ | + ½ |
| 30¼ | 15¼ | AVX | .24 | .8 | 29 | 1081 | 29⅝ | 29¼ | 29¼ | – ⅛ |
| 68½ | 44⅛ | AbtLab | 1.40 | 2.1 | 18 | 3494 | 66¾ | 65⅞ | 66½ | +1 |
| 18¼ | 12¼ | Abitibi g | 1 | | | 54 | 12½ | 12¼ | 12⅜ | |
| 13 | 7½ | AcmeC | .40 | 4.1 | | 25 | 9⅞ | 9⅝ | 9⅞ | + ¼ |
| 9¾ | 5⅞ | AcmeE | .32 | 3.7 | 12 | 49 | 8⅞ | 8⅝ | 8⅝ | + ¼ |
| 36½ | 20⅛ | Acuson | | | 24 | 674 | 36¼ | 35⅞ | 36⅛ | + ⅞ |
| 17 | 14¼ | AdaEx | 2.09e | 12. | | 385 | u17⅛ | 16⅞ | 17 | + ¼ |
| 12⅝ | 6½ | Adobe | | | | 227 | 10¾ | 10⅝ | 10¾ | + ⅛ |
| 21⅝ | 19⅞ | Adob pf | 2.40 | 12. | | 23 | 20⅜ | 20¼ | 20⅜ | |
| 10½ | 7⅛ | AMD | | | | 616 | 7⅞ | 7½ | 7⅞ | + ⅜ |
| 35 | 28½ | AMD pf | 3 | 10. | | 23 | 28⅞ | 28⅝ | 28⅝ | – ⅛ |
| 10⅛ | 6⅞ | Advest | .12 | 1.6 | 11 | 16 | 8 | 7⅞ | 7⅞ | |
| 62½ | 48 | AetnLf | 2.76 | 4.6 | 10 | 3387 | 60⅛ | 59½ | 59⅞ | + ⅜ |
| 14 | 12⅛ | AflPb | .22 | 1.9 | | 1043 | 12⅞ | d11⅞ | 11⅞ | – ½ |
| 25 | 15⅛ | Ahmans | .88 | 4.4 | 10 | 3184 | 20 | 19⅞ | 20 | + ¼ |
| 4 | 2¼ | Aileen | | | | 21 | 2⅜ | 2½ | 2⅜ | + ⅛ |
| 48¾ | 37⅞ | AirPrd | 1.32 | 3.0 | 11 | 606 | 43⅞ | 43⅝ | 43⅞ | + ⅛ |
| [illegible] | | | | | | | | | | |


Continued on Page 43

# NYSE COMPOSITE PRICES

Continued from previous Page

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 12⅛ | 11⅞ | PIGM n | | | | 101 | 12 | 11⅞ | 11⅞ | |
| 10¼ | 9⅜ | PMM n | .75a | 7.8 | | 314 | 9⅝ | 9½ | 9⅝ | +⅛ |
| 9⅜ | 7⅝ | PMIIT | 1.09a | 13. | | 881 | 8 | 7⅞ | 7⅞ | |
| 9⅝ | 8 | PMIT | 1.10a | 13. | | 1780 | 8⅝ | 8½ | 8½ | +⅛ |
| 8¼ | 8 | PPrIT | 1.14 | 14. | | 3945 | 8½ | 8⅜ | 8⅜ | |
| 12 | 6 | QMS | | | 7 | 73 | 10½ | 10⅜ | 10½ | |
| 1 | 3-16 | Quotel | | | | 616 | ⅜ | ¼ | 5-16 | +⅛ |
| 63⅞ | 42½ | QuakrO | 1.40 | 2.3 | 23 | 757 | 61¼ | 60⅞ | 61¼ | +⅜ |
| 19¾ | 13⅝ | QuakSC | .80 | 5.4 | 27 | 1788 | 15½ | 14¾ | 14⅞ | −¼ |
| 19 | 12½ | Quanex | .32 | 2.2 | 6 | 132 | 14¾ | 14½ | 14⅝ | +⅛ |
| 59½ | 30¼ | Quantm | .3e | 8.8 | 5 | 684 | 34¾ | 33⅝ | 34¼ | +½ |
| 12¼ | 10⅛ | QstVl | 1.20a | 9.4 | | 249 | 12¾ | 12⅝ | 12¾ | |
| 14 | 7¾ | QstVC | | | | 286 | 12⅞ | 12 | 12⅛ | −⅛ |
| 39½ | 31 | Questar | 1.92 | 5.3 | 15 | 34 | 36⅝ | 36½ | 36½ | |
| 16¼ | 10¾ | QkReily | .24 | 1.5 | 14 | 45 | 16⅝ | 16½ | 16⅝ | |

−R−R−R−

[illegible]

# AMEX COMPOSITE PRICES

4pm prices November 10

[illegible]

# NASDAQ NATIONAL MARKET

4pm prices November 10

| Stock | Div. | P/E | Sales 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| A&W Bd | | 26 | 51 | 26 | 25½ | 25⅞ | |
| ADC | | 15 | 28 | 17⅞ | 17 | 17⅞ | +⅞ |
| ADT | | 10 | 444 | 30⅞ | 30⅛ | 30⅝ | +½ |
| ALC h | | | 401 | 1⅞ | 1¾ | 1 13-16 | |
| ASK | | 8 | 838 | 7½ | 7¼ | 7⅜ | −⅛ |
| AST | | | 1080 | 9⅞ | 9⅝ | 9¾ | |

[illegible]

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# The Business Column

## Quality as a competitive commodity

No matter which manufacturer one visits in Europe or the US these days, one is greeted with tales of quality derring-do. A car maker boasts of rising product reliability and falling warranty claims. An electronics company talks proudly about having cut defect rates from five per cent to five parts per million. A supplier of washing machines celebrates a slump in service calls. And so on.

Great stuff, you may think. Europe and the US are fighting back against Japan's dreaded drive to conquer the world by smothering it with quality.

Think again. In industry after industry where the Japanese are active, quality is no longer a weapon for winning the competitive game, but merely a qualification for playing it. Quality may have been a prime differentiator in the early and mid-1980s, but the game is changing fast, and more is now needed.

This is no mere nightmare. With unnerving repetitiveness over the past few weeks, thousands of miles apart, one industry expert after another has climbed to his feet to make the same point.

### Fit and finish

One of the first to pronounce was Professor Kim Clark of the Harvard Business School, who told last month's annual meeting of the Strategic Management Society in San Francisco that quality and "fit and finish" in the world auto industry were now mere commodities – or, rather, that any car manufacturer which failed to recognise this was in for a very nasty time.

The most recent, at a manufacturing strategy conference in London organised by the Strategic Planning Society last Friday, were Professors Chris Voss of Warwick Business School and Kasra Ferdows of Insead, the European business school near Paris.

Almost before his audience had settled in their seats Professor Voss was telling them that quality had ceased to be what he calls "an order-winner" in the marketplace: "it no longer gives an edge," he declared.

As one of the advisers behind Jaguar's quality-driven rise from near-extinction over the past few years, before its recent marketplace troubles in the US, Voss knows what he is talking about.

Even worse, take Jaguar's near-neighbour Rover. The company may have developed a well-pitched design and market niche strategy – two apparent "order-winners" in its particular competition – but, as Voss pointed out, it has not been meeting the qualifying criterion of quality. Not in the past, anyway.

The message grew even more gloomy on Friday when Kasra Ferdows unleashed a sheaf of statistics from the international surveys he conducts every year, in collaboration with academic colleagues from the US and Japan, into the manufacturing priorities of 1,000 large companies.

Asked to rank different manufacturing performance measures in order of competitive importance, European and US companies put quality at the top of the list. Yet the Japanese rated quality only fourth, after production lead times, direct labour productivity, and turnover of work in progress.

### Low prices

The importance which Japanese companies now attach to speed on every competitive dimension is made even more evident by a different set of Ferdows' results. These rank "rapid design changes" as second in competitive priorities, compared with only sixth in Europe and the US.

Most surprising of all is Japan's number one priority. After a decade of being told that Japanese manufacturers have shifted to competing on factors such as quality, performance, delivery, and service, one must be forgiven a moment of disbelief at the news that low prices are back at the top of the list.

The reason is not only that the rising yen has reasserted Japan's old obsession with price, but that several of the classic non-price factors – design excepted – are sliding into commodity status.

Not to Rover, maybe, but they are to really world class manufacturers.

Christopher Lorenz

*THE MONDAY INTERVIEW*

# Ortega's challenger steps forward

## Violeta Chamorro, Nicaragua's main opposition leader, speaks to **Tim Coone**

The person to make the first serious electoral challenge to Nicaragua's left-wing president Daniel Ortega is a woman with more than one fight on her hands. For as she admits, her political credentials are not her own but those of her dead husband.

Mrs Violeta Chamorro, popularly and respectfully known as Doña Violeta, is the main opposition candidate in next February's crucial elections in Nicaragua. Hope is pinned on these elections to bring a definitive peace to the country after eight years of war which have devastated the economy, caused appalling loss of life and divided families.

Though she and her family form a highly unusual newspaper dynasty, they at the same time symbolise the tragedies and traumas caused by the overthrow of the Somoza dictatorship in 1979 by the Sandinista Revolution. Mrs Chamorro bears the mantle of her late husband, Pedro Joaquin, a prominent Conservative opposition figure and editor of the family newspaper, La Prensa, who was gunned down by the dictator's henchmen in January 1978.

One of her sons is a former leader of the Contra rebels; another is editor of the Sandinista newspaper, Barricada, while her brother-in-law left La Prensa when it shifted to the right after the Revolution and now edits the down-market pro-Government newspaper El Nuevo Diario. A daughter, moreover, is married to a respected Sandinista official.

The failure of government and Contra leaders to come to an agreement over the weekend at the UN, on demobilisation terms of the 12,000-strong Contra army, is bound to embitter existing divisions in the country and complicate the electoral process. A flicker of hope remains as the talks resume today. But Mrs Chamorro is being labelled by the government as the candidate of the US and the Contras, due to the close identification with the rebels of the National Opposition Union (UNO), the 11-party coalition she heads. If the war continues until the elections this could cost her votes.

According to the most reliable opinion poll, Daniel Ortega is now credited with 26 per cent, Doña Violeta 21 per cent. Over 40 per cent were undecided when this poll was taken in October. She will be trying to convince Mrs Margaret Thatcher, the British Prime Minister when she sees her today (on the first leg of a European tour) that she has the makings of a leader.

"I wear the brand of the Chamorros" says Doña Violeta proudly, a strikingly handsome woman who has just turned 60.

"My life began with my husband. My life with him was my university and my knowledge to be where I am today in Nicaragua," she says. His death mobilised public and international opinion against Somoza, who was eventually toppled by the Sandinista guerrillas in July 1979.

Her home is now almost a shrine-cum-museum to her deceased husband. A large cement bust of him dominates a patio of her garden. A display cabinet is filled with his shoes, clothes and personal articles he used when he was in prison, and on the day when he was

**PERSONAL FILE**

| | |
|---|---|
| **1929** | Born in Rivas, Nicaragua |
| **1950** | Married Pedro Joaquin Chamorro |
| **1978** | Husband killed by assassins hired by Somoza dictatorship. Takes over at La Prensa |
| **1979** | Fall of Somoza regime. Member of new government junta |
| **1980** | Resigns from junta |
| **1989** | Opposition candidate for 1990 elections |

assassinated in 1978. The walls of her private study are covered with photographs of him.

However during their 27 years together she was to remain in his shadow, being his support while he was in Somoza's prisons, and being the mother to their four children. She says the first day she held a microphone was the day following her husband's death. "My voice trembled because of the pain and sadness and my lack of experience of speaking in public. After Pedro died, Violeta took the reins."

Today she talks with more determination but one can't escape an impression that she might still be more comfortable relating tales to her grandchildren, rather than relishing the cut and thrust of Nicaragua's highly polarised politics. Her grasp of issues tends towards the anecdotal and superficial. "My only concern when we win is that the nine (Sandinista) commanders will look for new homes, because they are confiscated and will have to be given back," she says of the problems facing a UNO government.

Her first foray into politics came after the 1979 revolution. She served nine months in the pre-revolutionary government-in-exile and first post-revolutionary junta. "They wanted me, my husband's name and La Prensa. I accepted for the sake of the country but handed in my resignation six times before it was finally accepted." At the time, she said she left the junta for ill-health. "But I didn't tell the truth. I felt people were beginning to doubt the government. I gave that reason because I did not want people who had hope and faith in me to desert also. My resignation had nothing to do with that of Alfonso Robelo who resigned later, along with others, out of conscience." Mr Robelo later became a leader of the Contras, but is now back in Nicaragua and part of the UNO alliance.

She left the junta to dedicate herself to running her newspaper which the Sandinistas subsequently closed on numerous occasions. "I never thought of entering politics again" she says. However, by turning La Prensa into the main focus of opposition to the Sandinistas – a process encouraged and financially supported by the Reagan Administration – she became a central figure in Nicaraguan politics. Her freedom to publish was exploited by Washington as one of the benchmarks to judge the Sandinistas' behaviour; and while abroad she was portrayed as a champion of free speech, at home La Prensa was often seen as a mere mouthpiece for the Contras.

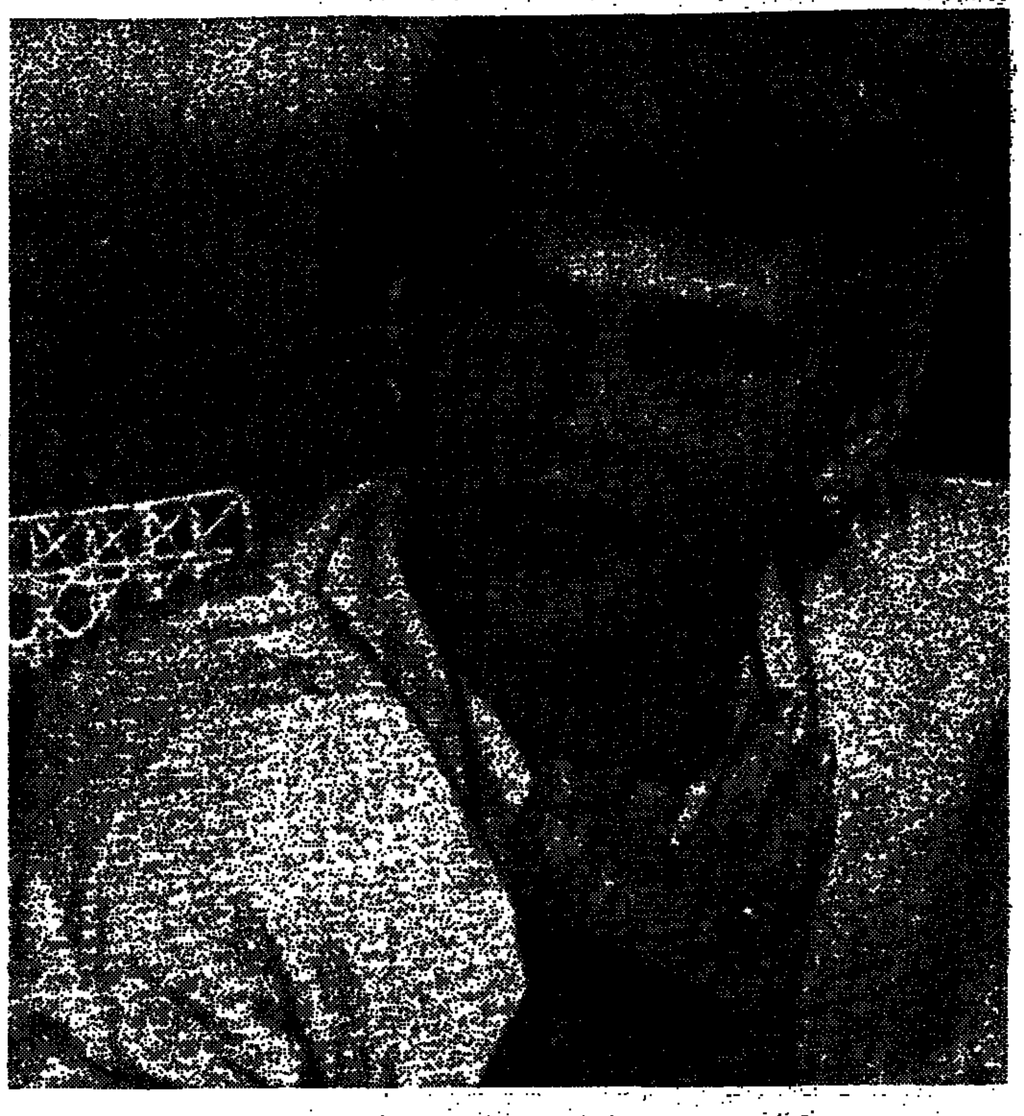
When therefore the fractious UNO alliance began its search for a presidential candidate capable of defeating the ruling Sandinistas, she was bound to be considered. She says "They asked me along to be interviewed. I went through a kind of exam, along with the other candidates and to my surprise I was selected. I accepted and here I am."

If elected she faces the daunting task of reconciling a divided nation as well as healing the splits within her own family, disputing her husband's legacy from both the right and left.

Dona Violeta is scathing of the agrarian reform. "It has been completely useless. The lands that Somoza left are sufficient to work with," she says arguing that the expropriations of large under-utilised *latifundia* since 1982 have been unnecessary. The former Somoza lands passed to state control in 1979 and were mostly capital-intensive enterprises unsuitable for break-up and redistribution into small co-operative units. In contrast, the *latifundia* break-ups have been used to benefit as much as 25 per cent of Nicaragua's rural population through land redistributions. Would she therefore return those lands to their former owners? Her ever-present press attaché shifts uncomfortably in his chair, leans over quickly and whispers "No, No."

"For the expropriated lands we will set up a group of lawyers who will study this bit by bit, but I don't want to say more than this for now," she replied carefully.

A commitment to roll back the agrarian reform, as demanded by some powerful sectors within UNO would be a disastrous plank to include in its electoral platform. This and other issues, such as the future control of the armed forces and



'I am a democrat. I am Violeta'

the share-out of ministries to the 11 parties within UNO, create a political minefield ahead should Dona Violeta be elected.

She would also face the Sandinista party (FSLN) in head-on opposition. The FSLN has had ten years to organise, frequently fudging the boundary between party and state, and now has an impressive apparatus which extends from a vastly-expanded public sector, through the trade unions, youth and women's organisations down to neighbourhood committees and all of which rests on the pillars of the armed forces, police and security services. In sum, it would be a formidable force in opposition and which has prompted some Sandinista leaders to say "We can give up the government but not power."

Dona Violeta dismisses lightly such problems "That is all obsolete. When we defeat the Sandinistas these people will come over to us."

Of Nicaragua's future economic model under a UNO government she says "Yes we have one but it is a secret." Asked whether the electorate might not wish to know what they are voting for she says: "We don't want the Sandinistas' economic model. What I want is that every campesino works on his little bit of land, that he produces, but without controls . . . Everyone wants to live individually. Nobody likes to live in union (collectively), like (the Sandinistas) are trying to do with all of Nicaragua. Here the campesino sows his maize in his little plot of land, leaves it a year, he keeps a part and the rest he sells. This is how we export. The Sandinistas put controls on everything from butter, eggs, cheese and chicken and that is why we have lost so much."

She eschews party politics and does not profess any strongly-held ideology. Her campaign managers and most of her closest advisers are family members or relatives by marriage, creating a source of potential conflict with the rest of UNO which is a party-based alliance ranging from communists through social democrats to conservatives. "I am a democrat. I am Violeta" she says, as if any further explanation is superfluous. Perhaps it is.

# Sharing the burden of proof in mental cases

JUSTINIAN

A doctor is under a duty not to disclose information which he has obtained from his patient in a professional capacity unless he has the patient's consent. That rule of professional secrecy is subject to a number of limited circumstances, one of which revolves around the occasional public interest in disclosure.

For the first time, last week the Court of Appeal has indicated when the public interest exception can apply. The specific rule of the General Medical Council states that "rarely, disclosure may be justified on the grounds that it is in the public interest which might over-ride the doctor's duty to maintain his patient's confidence." The example given is a police investigation into grave or very serious crime. The instant case in the court raised the point in an acute form. The point was the precise scope of the duty of confidence owed to a detained patient in a Special Hospital, where the patient had engaged the private services of a consultant psychiatrist to report on his mental health for the purpose of the patient's application for discharge by a Mental Health Review Tribunal.

About 10 year ago, the patient had committed multiple killings while suffering from mental disorder. He pleaded guilty to manslaughter on grounds of diminished responsibility and was committed to Broadmoor Hospital, with a restriction on his discharge without limit of time. In 1984, a tribunal had recommended his transfer to a regional secure unit as the first step in his rehabilitation and release into the community. In 1987, his responsible medical officer advised the Home Secretary that he should be transferred to such a unit. The Home Secretary declined to accept that advice, considering the patient still to be potentially dangerous. The patient re-applied to the tribunal for his discharge and to that end instructed solicitors on his behalf. A consultant psychiatrist was privately consulted to complete a report for use at the forthcoming tribunal hearing. The report was not helpful to the patient's cause; it indicated fresh information obtained from the patient himself that his personality displayed dangerous features, in particular a long-standing interest in explosives dating from a period well before his acute mental illness.

On legal advice, the patient withdrew his application for discharge. But the consultant psychiatrist, even though he knew that the tribunal hearing was not to take place, forwarded his report to the acting medical director of the Special Hospital who suggested that the solicitors' consent to disclosure should be sought. Consent was not forthcoming. Nevertheless, the psychiatrist forwarded his report which, unbeknown to him, had already been sent to the Home Office.

If the law is clear about professional secrecy its application is far from easy. There is an important public interest in maintaining professional duties of confidence but the law treats such duties not as absolute but as liable to be over-ridden where there is held to be a stronger public interest in disclosure. No doubt, the patient had a private interest in furthering his claim to be discharged from hospital detention but the private considerations do not obscure the public interest in confidentiality. The consultant psychiatrist's justification for disclosure was the risk to the public's safety.

Lord Justice Bingham, whose judgment repays careful study by any professional person concerned with the issue of confidentiality, decided the case ultimately on a narrow view of the facts of the case. Where a man has committed multiple killings under the disability of serious mental illness, the Lord Justice said, decisions which may lead directly or indirectly to his release from hospital should not be made unless a responsible authority is properly able to make an informed judgment that the risk of repetition is so small as to be acceptable. A consultant psychiatrist who becomes aware of information which leads him, in the exercise of what the court considers a sound professional judgment, to fear that such decisions may be made on the basis of inadequate information and with a real risk of consequent danger to the public, is entitled to take reasonable steps to communicate the grounds of his concern to the responsible authorities.

A detained patient may not so readily as others see the soundness of that proposition. Once detained under a restriction order without limit of time, the patient has, for ever after, to displace the presumption of his continued detention. He has to persuade the tribunal, which since the Mental Health Act 1983 can override the decision of a Home Secretary not to release a restricted patient that he is fit to be discharged on the grounds that he no longer presents a risk to public safety. It is placing too heavy a burden of proof on the patient to have to overcome what is in effect the decreasing force implicit in the court order that he is dangerous. There must come a time in the hospitalisation of a detained patient – perhaps 10 years from the date of the restriction order – when the burden of proof should shift to the hospital authorities to demonstrate why they think it necessary to keep the patient in detention. If that were the law, there would be little quarrel from civil libertarians that a consultant psychiatrist's adverse report on a patient would be properly disclosable to assist the protection of the public.

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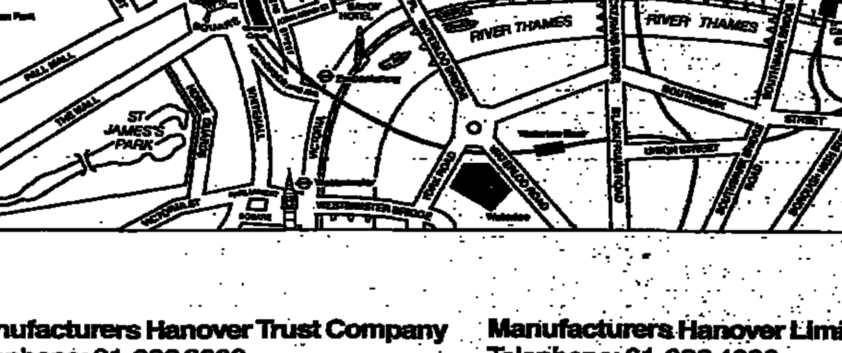


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SECTION III

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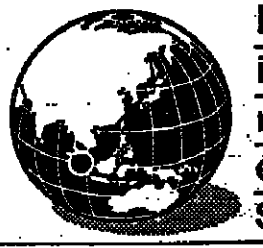
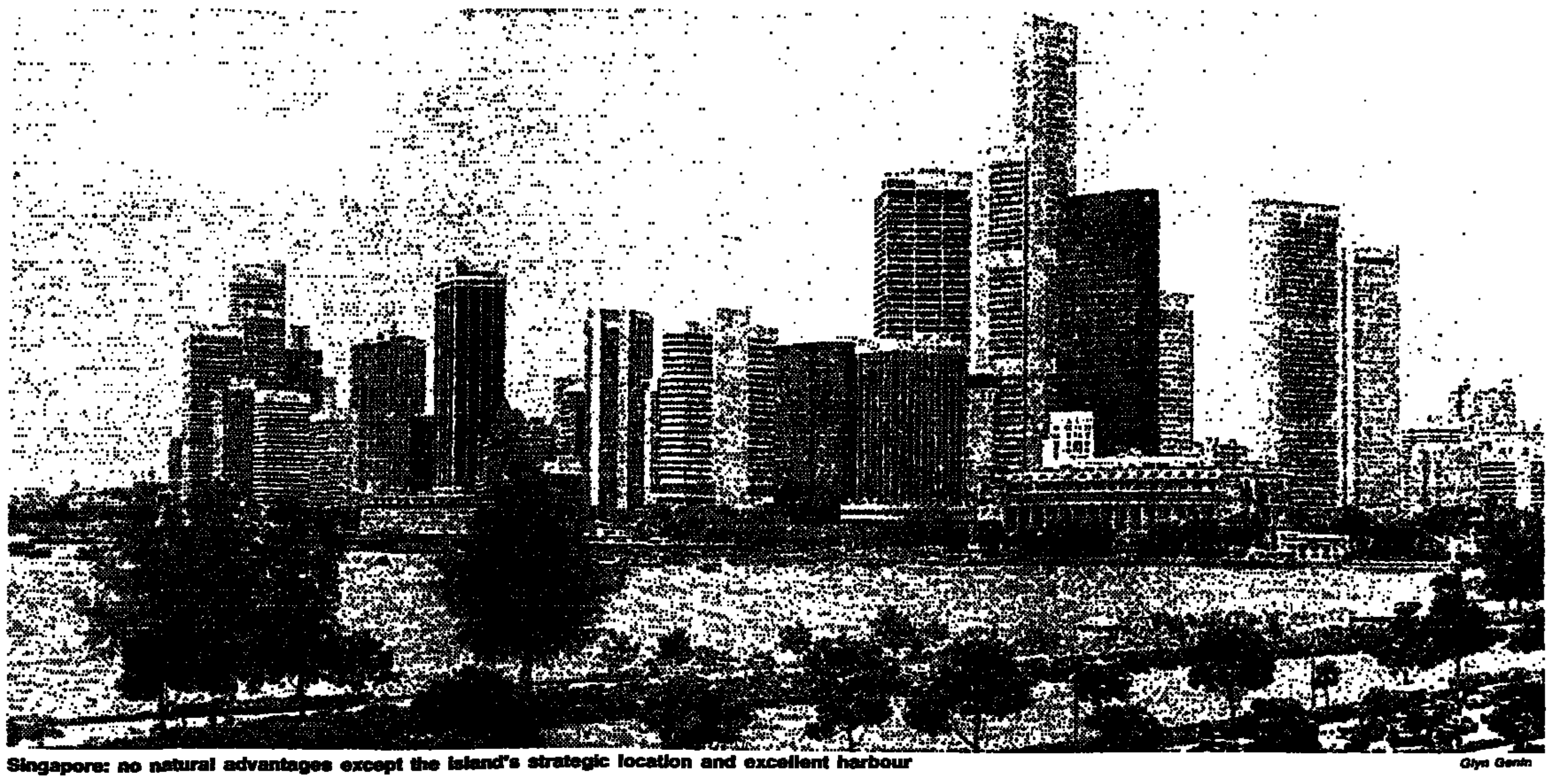


In its 25th year of independence and remarkable economic growth, Singapore is still exhorting its 2.65m people to set higher standards and new targets. **Andrew Baxter** explains that constraints on growth are forcing a change in industrial strategy.

## New priorities for expansion



Singapore: no natural advantages except the island's strategic location and excellent harbour

Glyn Genin

# SINGAPORE

THE traveller on Singapore's new, squeaky-clean Mass Rapid Transit system cannot fail to notice an illuminated advertisement showing a young father laughing under playful attack from his three small, pillow-wielding children while his wife looks on from the bedroom doorway.

The slogan accompanying this winsome scene from Singaporean middle-class family life reads: "Children. Life would be empty without them." After 30 years of self-government and in its 25th year as an independent country, Singapore is still exhorting its people to achieve new targets and set higher standards, in everything from avoiding rush-hour driving to producing more babies.

Throughout the past 20 years of industrialisation and infrastructural investment, the Government has been relentlessly active, guiding industrial planning through its capable, technocratic civil service and executing it via a heavy state involvement in industry and an open door to foreign investment. And with no natural advantages except the island's strategic location and excellent harbour, the government of Prime Minister Lee Kuan Yew has taken a leading role in honing the skills – and values – of the republic's 2.65m population.

But the planning priorities are changing gradually. The pre-eminence in colonial days of the country's trade *entrepôt* role gave way to that of the manufacturing-led export economy of the 1970s and 1980s. Now, and increasingly in the future, Singapore's self-declared role as the technopolis or "total business centre" of south-east Asia will be the dominant factor.

A technopolis, though, needs a hinterland, and Singapore's is its neighbouring countries, and particularly its fellow members of Asean, the Association of South East Asian Nations. The relationship is symbiotic and mutually beneficial. Indeed, Singapore's buoyant economic performance in the past two years – real GDP growth hit double figures last year for the first time since 1973 – is due in no small measure to similar strong showings among its Asean neighbours.

But success has also highlighted the constraints on growth. The republic has since the 1985 recession made considerable strides to boost its productivity, contributing to a strong improvement in its competitiveness vis-a-vis other newly-industrialised economies (NIEs). But, even with an economy that is now decelerating gently to a more sustainable long-term rate, the workforce of 1.3m needs topping up with 150,000 foreign workers to maintain momentum.

The labour shortage is described by Dr Richard Hu, Finance Minister, as "our most intractable problem." It lies behind the Government's drive to encourage manufacturing companies to relocate their most labour-intensive operations abroad and concentrate on more value-added activities in Singapore.

In this new phase of economic maturity, a private sector that has historically been happy to let the Government set the agenda for industrial development is being urged to recognise the benefits quality direct investment overseas might bring to Singapore, through technology transfer and the synergies from acquisition. That would lead eventually to the creation of genuine home-grown multinationals, allocating activities to the most financially advantageous countries.

The Government, for its part, now recognises that it is not necessarily the best judge of business strategies for the sophisticated industrial and financial sectors whose growth it wishes to encourage. But it will continue to ensure that the infrastructure, already on a par or even ahead of western standards, will continually be expanded and updated.

The slowing of economic growth this year, and probably in 1990 too, is an indication that many of the gains in productivity, especially in manufacturing, have already been achieved. But ministers still identify pockets of resistance in the non-financial service sector, such as hotels and restaurants.

The social and demographic responses to the constraints on growth are an altogether more complex affair than getting waiters to work harder. The procreation-promoting posters, backed up by financial inducements, can only be a long-term attempt to grow out of the labour shortage. Population growth is running at just 1.5 per cent a year – Indonesia is producing the equivalent of Singapore's entire population very year.

Of more immediate use, at least intentionally, was Singapore's offer earlier this year to allow 25,000 Hong Kong Chinese families to move to the republic over the next five years. Naturally the offer was also motivated by kindred feelings for fellow Chinese worried about their future under Peking rule.

The offer seemed to arouse a hornet's nest of concerns among Singaporeans, and raise issues rarely aired in the press. For the minority races – Singapore's population is about 76 per cent Chinese, 15 per cent Malay and 6 per cent Indian – there were concerns that the racial balance would be further tipped against them. And some Chinese businessmen worried about newcomers with a much brusquer approach to making money.

It was just this sort of stimulus to private sector dynamism which the Government hoped to achieve in making the offer. But Singapore's small businessmen need not worry excessively: only a handful of families have arrived from Hong Kong, just as the hoped-for stream of companies relocating their headquarters to Singapore from Hong Kong has failed to materialise.

The reason, perhaps, is that the perceptions in Hong Kong of Singapore as a safe, but unexciting, haven of paternalism, put it a long way down the list of options for emigration. In any case, financial rewards are much higher in the US, Canada and Australia.

Similar thoughts seem to have been in the minds of an increasing number of young Singaporeans, because the island has its own "brain-drain problem." The issue was a central theme in Mr Lee's National Day Rally speech in August, where he urged the nation to analyse why many talented young Asians were being "creamed off" by the developed nations. Emigration from Singapore was negligible in the 1960s, rising to 2,000 a year in the mid-1980s and 4,700 last year.

Mr Lee, with his deep emotional commitment to Singapore and vivid recollection of the difficult early years of self-government, says he cannot understand why young Singaporeans are leaving. Opponents of the Government say people are fed up with being told what to do all the time, and want to emigrate somewhere with a more relaxed political environment.

Surveys of emigrants' attitudes show that the wish for greater freedom of choice and less regulation is at least a factor in prompting their departure. But Singapore's leaders are acutely aware that the emigration issue is also a facet of Singaporeans' rising aspirations and self-confidence after years of economic growth.

These trends explain the cautious moves towards giving people more of a say in their own lives. Diversity is the current byword, whether in housing, through the devolution of estate management to new town councils, or in the very achievement-based education system.

There is, too, grudging acceptance within the dominant People's Action Party that non-government voices may have a role to play in the political process, although current moves towards "nominated MPs" drawn from many walks of life are dismissed by opponents as a smokescreen.

But there are some issues where the Government remains extremely sensitive to perceived domestic or external threats, and to criticism of the way it handles them. Mr Lee's defamation suit against the Far Eastern Economic Review, in which he claims the magazine implied he was trying to attack the Catholic Church, illustrated the delicacy of relations between the state and organised religions. Legislation to enforce a clear separation of roles is planned.

As with Singapore's economic priorities, the Government's rationale for its continued caution on relaxing internal security is changing; while the threat presented by communism is receding, that of communalism is still present, it claims.

With such a diverse mix of races and religious backgrounds, the Government is treading carefully in its attempts to frame a "national ideology" of values which all Singaporeans can share. Observers note that, in such a society, anything more ambitious than mere platitudes could potentially offend one particular racial or religious group.

What finally emerges is likely to bear a different name: "national ideology," according to Brigadier-General George Yong-Boon Yeo, one of the riding stars of Singapore's second generation of leaders, "gives you the sense of a forced march towards an Utopian ideal". Instead, he likens the "shared values" to a large circle overlapped by smaller rings denoting different cultures. "We hope we can nudge the circles closer together without any illusion that they can overlap competely."

BG Yeo and the other BG, Lee Hsien Loong – Mr Lee's son – are likely to become even more familiar to Singaporeans over the next few years. For this is also a time of political transition, with Mr Lee set to hand over the Prime Ministership to Mr Goh Chok Tong, the First Deputy Prime Minister, next year. Mr Lee, however, will continue to influence broad policy matters for some years.

Mr Goh, who will be only the second prime minister in the era of self-government, will inherit a sound economy and industry that is moving ahead single-mindedly to a new plateau of development. Its target to exceed Switzerland's per capita GNP by the end of the century is within reach: the comparison might seem apt given the two countries' similar approaches to everything from cleanliness to financial regulation. In both, the trains run on time, literally and metaphorically.

From a political and social viewpoint, the challenge for the new leaders will be to find what BG Yeo calls "an optimal balance between being coiled up because we are a small country to being more relaxed because of our economic prospects, which are good". That balance, he predicts, will have to be different in future.

CONTENTS



*Editorial production: Roy Terry*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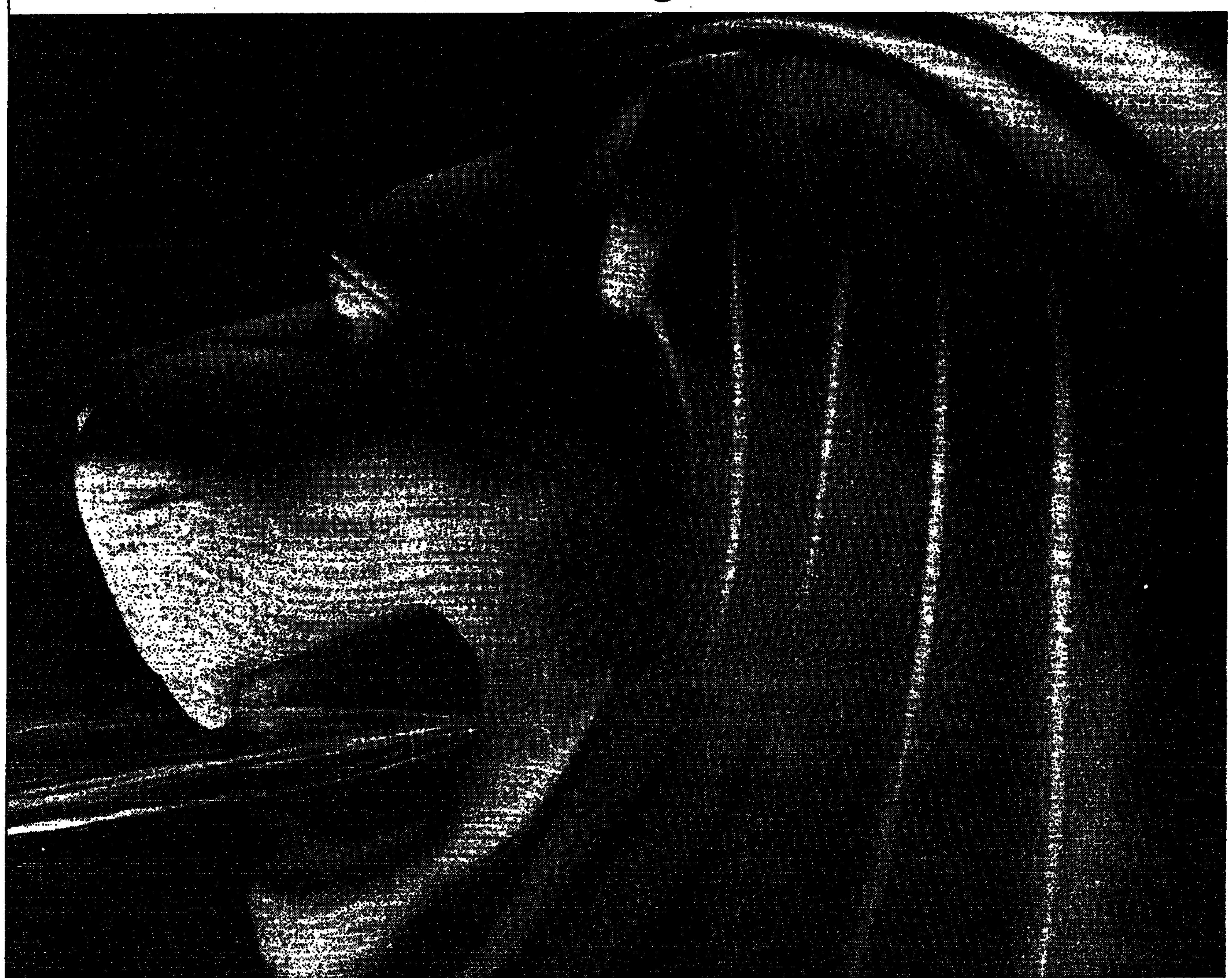

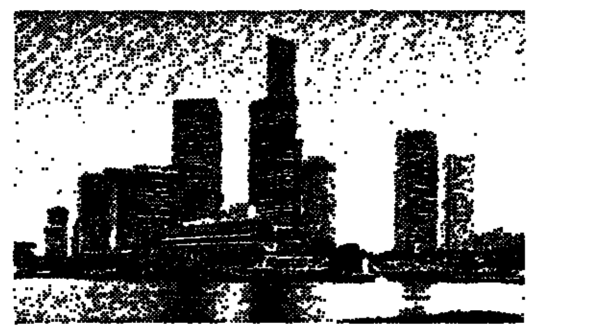

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**Andrew Baxter** looks at the political scene

# Period of transition ahead

SINGAPORE'S People's Action Party, whose dominance of government has not been challenged since the clashes with the communists in the early 1960s, faces a year of transition in 1990 when Mr Lee Kuan Yew steps down after 30 years as Prime Minister.

But the consequences of Mr Lee's departure are likely to be less than earth-shattering. It has been known for at least a year that Mr Lee would be going, and that his successor would be Mr Goh Chok Tong, the 48-year-old First Deputy-Prime Minister.

Debate has centred instead on the timing of Mr Lee's decision, and on what post he would assume afterwards. Would he accede to a new, upgraded executive presidency, replacing the genial Mr Wee Kim Wee whose role is largely ceremonial, or instead take what would be the new post of senior minister in the cabinet?

These questions are close to being answered, although it is still not clear when, or how, Mr Lee will go. The Prime Minister said recently he had been prepared to go last year, but had been persuaded by Mr Goh to give younger members of the cabinet, including Mr Lee's son Brigadier-General (Res)


Lee Kuan Yew


Goh Chok Tong

**Observers say Mr Lee will continue to frame the broad direction of policy even if his hand is not on the tiller**

Lee Hsien Loong ("BG Lee"), time to mature.

One observer added impishly that the decision had been put off until 1990 to allow Mr Lee to welcome the Queen during her state visit to the island republic last month while he was still PM. It is even suggested that Mr Lee might try to stay on longer in the event of a big domestic or regional crisis.

That is, however, extremely unlikely, although observers within and outside the PAP say Mr Lee will continue to frame the broad direction of policy even if his hand is not on the tiller.

Mr Chiam See Tong, a lawyer and Singapore's single elected opposition MP since the 1988 general election, says: "Until Mr Lee leaves the scene, it is very difficult to foresee things changing."

Mr Lee and Mr Goh, who took a first class economics degree at the University of Singapore before becoming a civil servant and shipping executive, are like chalk and cheese. A popular figure within the PAP, Mr Goh makes up in affability for what he lacks in charisma, and has not escaped criticism by Mr Lee for "woodenness".

Ideologically, Mr Goh is generally credited with being more liberal than Mr Lee, which may be the reason for the PM's less than glowing descriptions of his chosen successor.

But Mr Goh is nothing if not phlegmatic, and could be expected to remain Prime Minister for at least two terms, or maybe even longer. There is considerable scepticism, though, over how much freedom to manoeuvre Mr Goh will have. With the option of Mr Lee becoming executive president now ruled out, ostensibly because it would confuse the population, it seems likely that he will become Senior Minister.

In that role Mr Lee will be able – and no doubt willing – to voice his opinions at cabinet level. Now aged 66, the Prime Minister said last month that he would stay in the cabinet for the balance of the current term, or four years.

Mr J.B.Jeyaretnam, secretary-general of the Workers' Party of Singapore and a long-time thorn in the side of the PAP government, remarks that with Mr Lee as Senior Minister, and BG Lee seemingly certain to become First Deputy-Prime Minister, "Goh Chok Tong will be thrown to the wolves".

But BG Lee, born 11 years after Mr Goh in 1952, has time on his side even if Mr Goh serves as Prime Minister for 15 years. Most observers believe the PM's son will be content to be deputy to Mr Goh, and wait his turn for the top job.

For Mr Lee the first priority is to maintain political continuity, "without any glitches", through the succession and beyond. Mr Goh would seem well suited to the task – Mr Chiam says he is "not the sort of chap who would launch out with ideas of his own".

By contrast BG Lee, 37, a conviction politician who inevitably is heavily influenced by his father, is a forthright character with far fewer instincts for decision-making by consensus.

There are, therefore, considerable contrasts among the second generation of leaders – the other key figure is BG (Res) George Yong-Boon Yeo, a close ally of BG Lee – which could become more apparent when Mr Lee eventually leaves the Cabinet.

The thinking of the second generation is illustrated by the somewhat fitful moves towards what has been called aNational Ideology, or values which all Singaporeans can share, much like a company's mission statement.

Politically the initiative seems to be an attempt to give an ideological foundation to the economic tripartism that has been a key element in Singapore's development, thus cementing the PAP's political supremacy. The plan is now on a slow boil, says BG Yeo: background papers are now being prepared which may lead to a parliamentary debate next year.

On the more mundane level of parliamentary representation, the PAP's grip is hardly in doubt anyway due to Singapore's first-past-the-post electoral system and, claims Mr Chiam, its control of the media and propensity to change the electoral ground-rules.

Mr Chiam's left-of-centre Singapore Democratic Party and the Workers' Party are the only credible opposition

**Mr Goh is nothing if not phlegmatic, and could be expected to remain Prime Minister for at least two terms**

groups, but labour in an environment depoliticised by years of economic growth.

Nevertheless, Mr Chiam detects a growing groundswell of opposition by Singaporeans to "constantly being treated like little children" by the government, and cites this as a reason for the brain-drain emigration.

The SDP MP is also worried by what he sees as growing inequalities in Singapore society, and by the unnecessary retention of the Internal Security Act, a colonial legacy that allows detention without trial.

But given Mr Lee's paramount concern for political and economic continuity, these issues are unlikely to be on the agenda for some time.

Analysts forecast a slowdown in real GDP growth

# A gradual deceleration

NOBODY expected Singapore to repeat in 1989 the economic performance achieved last year – real GDP growth of 11 per cent was the highest this decade – but the more cautious forecasts for the current year now look way off target.

With real GDP up by a robust 9.1 per cent year-on-year in the first half of 1989, private economists have upgraded their forecasts for the year as a whole to 8.1-8.2 per cent.

The government, meanwhile, has lifted its projection from 6-7 per cent to 7.5-8.5 per cent. However, growth is slowing in the second half of the year, and the economy is likely to continue decelerating in 1990.

Although the revised predictions for 1989 put Singapore well ahead of most countries in the region except Thailand, the strength of regional activity is a significant factor explaining the strong economic momentum in the island state.

Domestic trends are also working in the country's favour. Singapore is continuing to benefit from the painful lessons learned from its first recession in 1985. Measures taken the following year to cut business costs, including reductions in compulsory savings through contributions to the Central Provident Fund (CPF), lower corporate taxes and wage restraint, boosted competitiveness and are continuing to pay dividends.

The CPF has given Singapore one of the world's highest savings ratios – 42 per cent of GDP – and financed major public housing development without plunging the country into debt. It has played an important contributory role again this year.

The CPF contribution by employees has been cut from 25 per cent of pay to 23 per cent, lifting disposable incomes and hence consumer spending. This helped produce second-quarter growth of 8.9 per cent in the commerce sector, which includes hotels and restaurants, and 13.3 per cent in financial and business services.

But other less positive factors have also been at work. Wages in some sectors are rising at a nominal annual rate of 8 to 10 per cent and 6 to 8 per cent in real terms, reflecting the very factors which produced the lower growth forecasts for this year in the first place.

As one analyst puts it: "You can't expect a place to continue growing at last year's pace, especially with the constraints on growth on the supply side."

The reference is to the tight demand for workers, which produced an 8.7 per cent year-on-year rise in unit labour costs in the second quarter. June's 3 percentage-point increase in the employers' CPF contributions, leading eventually to equal 20 per cent contributions from both wage-earner and employer, may have made things worse in the second half of the year.

**Gross Domestic Product at 1985 market prices**

| Industry | 1988 | | | | 1989 | |
|---|---|---|---|---|---|---|
| | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr |
| | Percentage change over the same period a year ago | | | | | |
| Total | 11.6 | 11.1 | 11.8 | 9.7 | 9.2 | 9.0 |
| Manufacturing | 21.5 | 21.9 | 18.6 | 12.6 | 11.1 | 8.6 |
| Commerce | 19.5 | 15.8 | 16.3 | 16.4 | 7.6 | 8.9 |
| Transport and communications | 11.4 | 10.5 | 9.3 | 9.9 | 9.2 | 9.5 |
| Financial and business services | 8.4 | 7.6 | 9.5 | 8.9 | 12.4 | 13.3 |
| Construction | −7.9 | −6.5 | −4.9 | −2.0 | 0 0 | −4.3 |

Source: Department of Statistics, Singapore


Richard Hu

But in spite of relatively low interest rates of 5.5-6 per cent and unemployment of about 2 per cent, an annual inflation rate of 2.5 per cent in July hardly suggests the economy is overheating.

Inflation might edge towards 3 per cent by the end of the year, due to increased costs of car ownership. But Dr Richard Hu, Finance Minister, says the strength of the Singapore dollar, and weak oil prices, have helped check inflation, even if the government would prefer the annual rate to stay below 2 per cent.

Such currency factors, and higher cost increases in Hong Kong, Korea and Taiwan are maintaining Singapore's near-term competitiveness. But there is concern within and outside government about the long-term position.

In view of the Government's strong objections for social and political reasons to excessive reliance on foreign workers, the emphasis instead is on further productivity gains.

Dr Hu noted in his March budget speech that the contribution from productivity gains (output per employee) to the overall growth figure of 11 per cent last year was 4.4 per cent. The indigenous workforce contributed a further 3.8 per cent with foreign labour accounting for the remaining 2.8 per cent.

This year, productivity growth has slowed in all sectors except financial and business services. Most noticeable has been the slip in manufacturing productivity growth from 3.9 per cent in the first half of 1988 to 2.3 per cent a year later.

In fact, growth in the manufacturing sector is slowing down quite fast, from 18.4 per cent in 1988 as a whole to 8.6 per cent year-on-year in the second quarter of 1989. But Dr Hu points out that last year's growth was far too high to be sustainable, helping to create the tight demand for labour.

Although exports as a whole have held up better than expected, and especially sales to the US, the manufacturing slowdown has been caused by much lower external demand for products from the electronics industry, which accounts for 40 per cent of the manufacturing sector.

In the long-term this may not be important. The electronics industry, particularly semiconductors and disk drives, is notoriously cyclical. It is also labour-intensive, and therefore likely to become proportionately less important as manufacturing moves to countries without an endemic labour shortage.

But both Dr Hu and private economists warn that the sector cannot simply be replaced overnight, and that manufacturing, however its profile may change, will still remain vitally important to Singapore. Last year manufacturing accounted for 27.7 per cent of GDP.

Meanwhile, the growing importance of the service economy is already showing up in the current account of the balance of payments. Slower manufacturing growth is likely to produce a much higher merchandise trade deficit of US$3bn this year, against US$2.3bn in 1988. But strong growth in service exports and tourism receipts should produce a current account surplus of US$1.6bn-1.8bn this year and next, according to Merrill Lynch in a report last month.

For next year, most analysts are forecasting a further slowdown in real GDP growth to no more than 6 per cent. The trend of slower export growth is likely to continue due to economic conditions in the key industrialised markets, but domestic demand is likely to remain strong.

Even at 6 per cent, though, the forecasts for 1990 are at the top of the 4-6 per cent range viewed by the government as sustainable in the long-term because of resource constraints.

The important structural adjustments in the economy since 1985 should, barring major unforeseen events, help Singapore achieve in 1990 and beyond what historically are quite modest targets.

In Singapore's favour has been a much more broadly-

**Inflation might edge towards 3 per cent by the end of the year**

based recovery than many of its neighbours. At the micro-economic level, companies are now in much better shape, says Miss Wong Hong Chee, head of investment research at Kay Hian James Capel. "A lot of companies have learnt from past excesses, when they borrowed heavily and managements got very stretched. Now they are focusing on core businesses much more, and have improved their debt position by learning to use the stock market more efficiently."

On the other side of the coin, Singapore has to continue improving productivity to maintain competitiveness, especially in the service industries. These will assume greater importance in the light of the resource-based advantages of many neighbouring countries.

Some economists say the private sector will have to show much more dynamism to help achieve this. Also, broader fiscal considerations may prevent a repeat of what Dr Hu calls the "overnight" transformation in competitiveness after the 1985 recession, via the CPF.

**Andrew Baxter**

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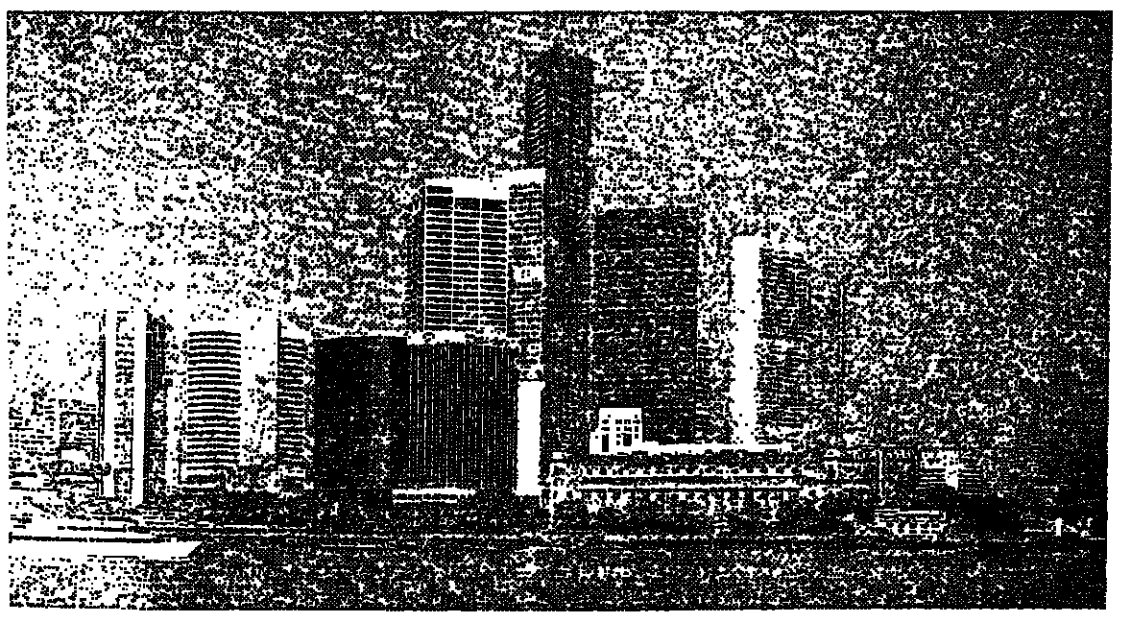

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Government gets tough over foreign workers

# Maintaining the balance

WITH an indigenous workforce of just 1.3m and almost static population growth, Singapore faces the inexorable need to continue importing foreign workers if it wishes to carry on growing.

But worries over the social costs of allowing in too many foreign workers – and particularly concern over disrupting the island's racial balance – are forcing a tougher attitude.

Over the past few months the seven-year-old levy employ-

**At present there are 150,000 foreign workers in Singapore**

ers are charged for hiring each foreign worker was raised in two stages from S$175-200 to S$250 a month. And, after revisions to a quota system introduced in 1985, no company can now recruit blue-collar foreign workers beyond 40 per cent of its workforce.

Employers cannot even forget about the restrictions when they get home – the levy on their Filipino maids is S$200 a month.

For Singapore's government the aim is to balance economic needs against social costs, with a mechanism that regulates the demand for labour. Employers were told when the levy was first introduced that it would be adjusted according to economic circumstances, and, says Mr Tang Siu Shing, deputy secretary at the Ministry of Labour, failure to increase the levy and tighten the quota after the strong economic growth of 1988 "would have been giving the wrong signals. We want to nudge the economy to a higher plateau" – where the need for a continuous influx of blue-collar workers could be reduced.

The tougher attitude this year, and the tightness of the current situation in some sectors, was illustrated by the consequences of Singapore's threatened caning of illegal foreign workers. About 12,000 illegals, mainly from Thailand and India, surfaced and left the country; while most have now returned legally, delays in the interim to some big construction projects showed up in the half-year economic statistics. The construction industry is traditionally shunned by most Singaporeans.

At present there are 150,000 foreign workers in Singapore, a figure that has risen by 50 per cent after two years of buoyant economic growth.

Mr Tan says he is not sure the number can rise by too much more. Long term the ministry hopes to reduce the dependence on foreign workers, and channel them to four sectors critical to the economy – manufacturing, construction, hotels and domestic service. Foreign maids are seen as important because they enable better qualified women to work.

At present the shortage of blue collar and, especially, clerical workers in manufacturing is having knock-on effects elsewhere.

Financial services companies, including banks, are losing clerical workers to higher-paid jobs in manufacturing, and also face shortages in technology-based jobs such as computing. Recruitment at lower levels in the civil service is also getting harder.

A particular trouble spot is the hotel industry, where near-record room occupancy rates are exacerbating the problem. Most hotel groups are having to offer a range of inducements such as gifts for good performance, overseas trips and staff parties to attract and retain workers.

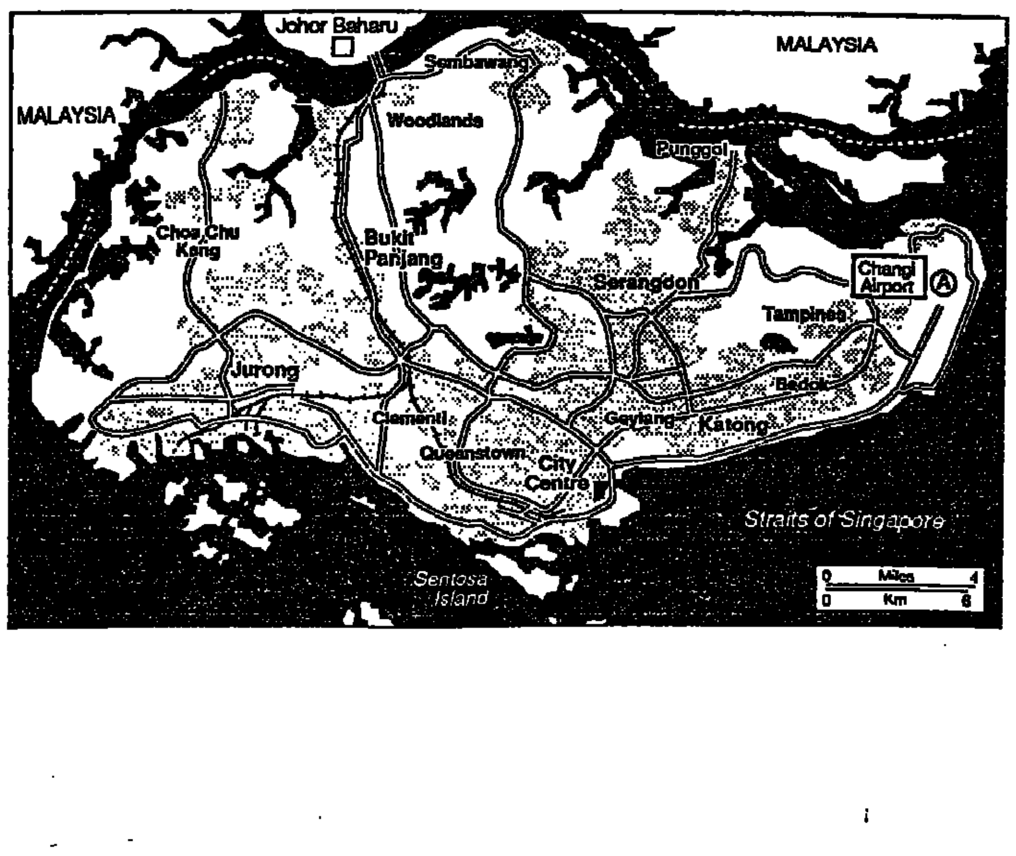
**Most hotel groups are offering inducements to attract workers**

Yet, it is in this sector, particularly, where the Government wants greater efforts to improve productivity, even if, as Mr Lim Chin Beng, chairman of the Singapore Tourist Promotion Board, says, one cannot automate too much in a service industry. Officials point to their experiences in foreign hotels where fewer people are said to do the same amount of work.

In banking, where considerable productivity gains have already been made, further emphasis is likely to be placed on automation, and banks have also been bringing in clerical workers from Malaysia. In the civil service the response has been a policy of freezing manpower at 1986 levels of around 70,000, excluding workers in statutory boards.

Although the levy hits employers pockets, and the quota potentially places physical curbs on employers' plans, industry generally accepts the need for the system.

As Mr Tan Eng Joo, president of the Singapore Chinese Chamber of Commerce and Industry, says, the labour shortage is "one of the problems of success ... We had started to tackle this problem way back".




**Andrew Baxter**

**Andrew Baxter** examines trade and investment

# Cornerstone of the economy

SINGAPORE'S politicians are fond of quoting the fact that the island republic's total external trade last year was S$167bn or three-and-a-half times GDP, to indicate the extent to which international trade is a cornerstone of the economy.

But achieving its position as the world's 18th biggest exporter has not simply been a question of exploiting opportunities in major industrialised markets. To a very large extent it is the result of a policy on inward foreign investment that has produced, along with the Government's active involvement in industrial planning and investments in infrastructure, the industrial expansion of the past 20 years.

For, despite the free market economy, the Government has a variety of levers at its disposal to steer the course of trade and investment development. But Mr Mah Bow Tan, Minister of State for Trade and Industry, points out that while the "whole armoury" of incentives, both to encourage foreign investment and capital commitments by local entrepreneurs, is broadly the same as was used to bring in labour-intensive industries in the past, it is now being used to attract technology-based industries.

So, although corporate investors made a record S$2.01bn in capital spending commitments last year – with foreign investors contributing S$1.7bn, the emphasis is now much more towards capital-intensive and, lately, "knowledge-intensive" investments. Foreign and local companies are meanwhile being encouraged to invest overseas, and particularly to shift labour-intensive operations to neighbouring countries.

The Indonesian island of Batam, for example, is seen as an ideal spot for the labour-intensive parts of Singapore's electronics industry, and Mr Mah sees a "high degree of complementarity" between Singapore's maturing economy and the less developed state of its neighbours in Asean.

In line with these changing priorities, Singapore's Trade Development Board (TDB) and Economic Development Board (EDB), the two key government agencies at work in this area, have been expanding and diversifying their role, particularly in the years since the 1985 recession.

At the EDB, the most significant new development has been an initiative launched earlier this year to help Singapore companies make direct investments overseas, including strategic acquisitions, an area where they have little experience. The aim is to develop true home-grown multinationals, by encouraging local companies to gain access to new markets and technologies. Mr Philip Yeo, the EDB's chairman, said investment overseas would create jobs for Singaporeans abroad, or long-term economic growth at home, "which means jobs".

Under the International Direct Investments programme, there are several tax and financial incentives for companies whose direct investments overseas are of economic relevance to Singapore. The EDB is doing the match-making, in liaison with international investment banks, to help Singapore companies find partners, but Mr Yeo stresses that "we are not looking for billion-dollar deals".

**Intra-Asean trade is likely to assume ever greater importance, and also trade with India and China**

The most conspicuous result so far from the new programme was the acquisition by Yeo Hiap Seng, a Singaporean producer of such delicacies as sweetcorn pudding and chrysanthemum tea, of Chun King, the US chop suey producer. The state's Temasek Holdings put up half the US$52m asking price.

Not all the acquisitions are likely to be so far from home, in view of the importance attached to increased direct investment by Singapore entities, public or private, in other Asean countries. Although Singapore's Asean investments more than trebled last year to US$598m, according to figures compiled by Merrill Lynch, the US brokerage house notes that "major Singapore firms that have the resources to go abroad are usually government-owned and their acquisitions are partially cautioned by political and foreign policy concerns".

That this attitude is now changing is a sign of Singapore's growing economic maturity. At the same time, the nature and source of inward investment flows is changing. Although the US remains the biggest investor cumulatively, its annual investment has been overtaken by Japan's since 1986, and last year Japan accounted for 34 per cent of foreign investment. Singapore is now the world's fifth largest recipient of Japanese investment.

As well as hoping to encourage "more and better activities" to help raise its standard of living, Mr Yeo wants to retain a geographic balance in the source of foreign investment. There is some concern that Europe, in its enthusiasm for the EC's 1992 internal market reforms, may be ignoring opportunities in the Pacific Rim. The UK, for example, has made no big new direct investment for three years, although existing facilities have been expanded and the former colonial power remains the third largest investor cumulatively.

Given the close links between investment and trade flows, it is not surprising that Singapore's trade with Japan has been growing in recent years, as has intra-Asean trade. But the US remains the biggest trading partner, taking more than 25 per cent of the republic's exports.

Japan is still some way behind, which explains some recent initiatives of the TDB aimed directly or indirectly at Japan. For example, it has just announced a joint venture with a Japanese partner to develop a distinctive Singaporean jewellery brand for the faddish Japanese market. Mr Yeo Teng Seck, the TDB's chief executive, says selling to Japan is hard work, but Singapore was receiving help from the Japanese External Trade Organisation (Jetro) in designing products, such as furniture, to meet Japanese tastes.

Another important development will be the opening next year of the S$180m International Merchandise Mart, a joint venture between the TDB and big Japanese retailers and wholesalers – notably Yaohan Department Store which will have a majority stake. The aim, says Mr Yeo, is to create a one-stop wholesale supermarket – the first in Asia – where exporters can provide displays of their products, and retailers can buy under one roof.

However, given Singapore's ambition to be thought of as a "total business centre" with a global reach, the most significant recent innovation could be TradeNet.

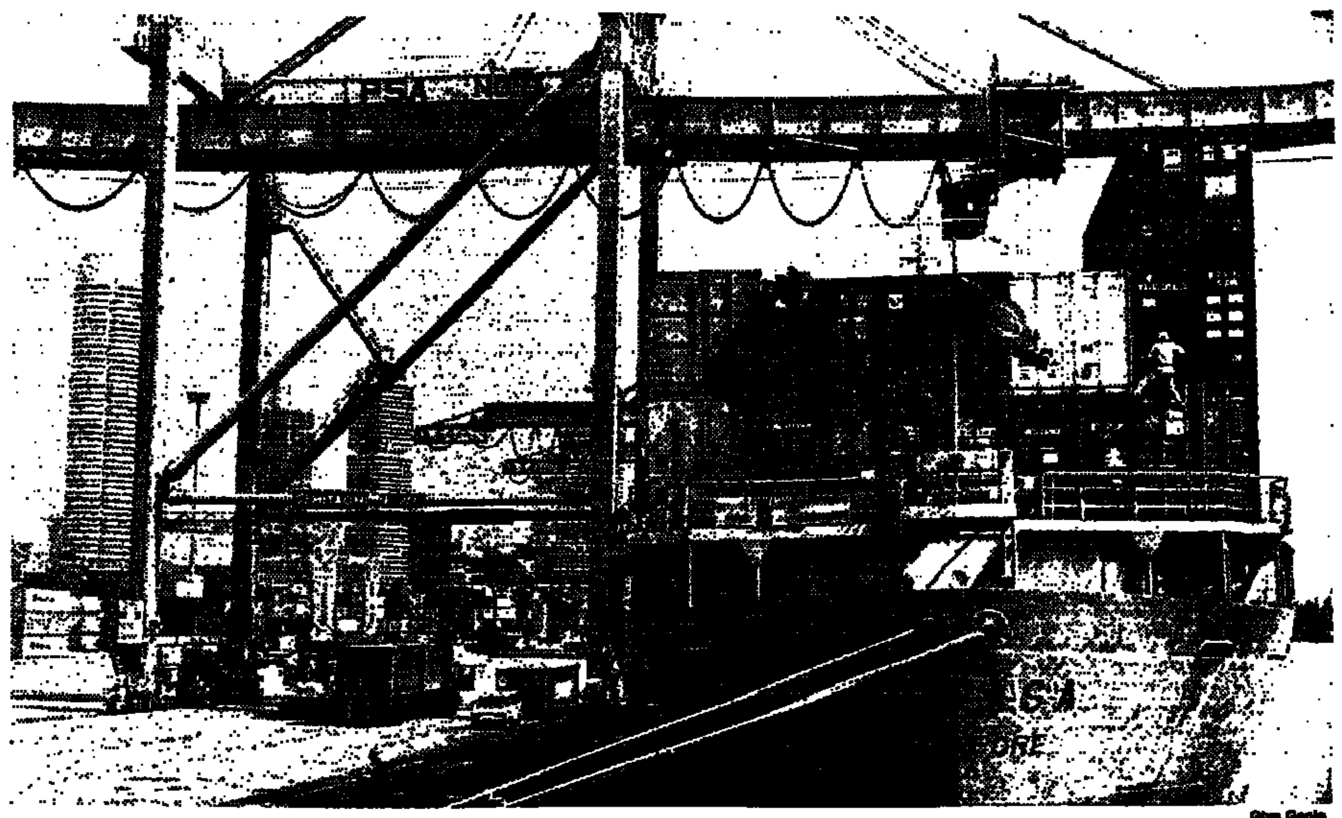
This recently-launched national electronic data interchange network links companies involved in trade with government agencies so that all trade documentation can be handled electronically.

In the long term these initiatives may be more important than more controversial issues of world trade politics. Although Singapore's trade surplus with the US increased slightly last year to US$2.46bn, this pales by comparison with those of Hong Kong or Japan, and Mr Mah believes Singapore's commitment to free trade and its open economy will guard it from excessive protectionist pressure.

So while Singapore is aware that it is has become easier for US companies to pursue anti-dumping suits, there is confidence that the country's exporters can defend themselves successfully. Mr Mah said Singapore was in complete agreement with the US that trade issues should be resolved within the General Agreement on Tariffs and Trade.

"We don't like to see the unilaterals" – such as the the US 301 and super-301 Trade Act provisions – "and we are not so keen on the bilaterals. Ultimately there is a point where there are too many bilaterals, and you get excluded," he said.

In the future intra-Asean trade is likely to assume ever greater importance as the region's economies develop, and also trade with India and China, notwithstanding the slowdown in trade since the crushing of the students' democracy movement in June. Europe, too, is likely to assume greater importance, and Mr Mah says all the indications are that the EC internal market could mean more opportunities for Singapore, particularly if the trade effort is backed up by direct investment in Europe.



Glyn Genin

**Harbour activity: total external trade last year was S$167bn, making Singapore the world's 18th biggest exporter**

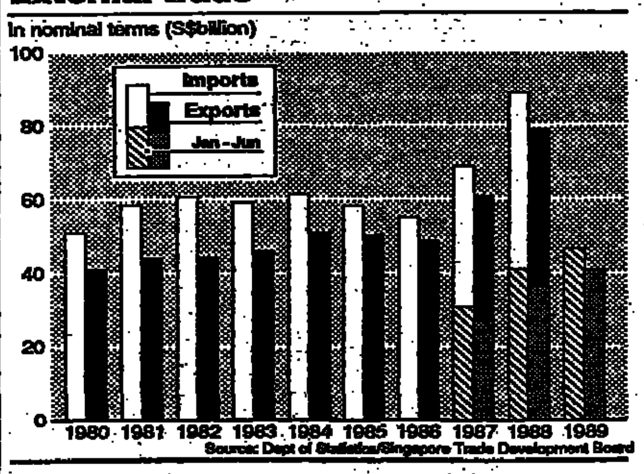
## KEY FACTS

| | |
|---|---|
| Area | 622.6m sq km |
| Population | 2.65m |
| Prime Minister | Mr Lee Kuan Yew |
| **ECONOMY** | |
| GDP per capita | $9,158 |
| Real GDP growth 1988 | 11.0% |
| 1978-88 average | 7.2% |
| Current account balance 1988 | +$1.66bn |
| 1987 | +$0.55bn |
| Domestic exports 1988 | S$49.55bn |
| Re-exports | S$29.5bn |
| Total reserves excl gold (end June 89) | $18.115bn |
| Inflation 1988 | 1.5% |
| 1978-88 average | 2.9% |
| Net investment commitments in manufacturing | |
| 1988 total | S$2.016bn |
| Of which: | |
| Foreign | S$1.668bn |
| Local | S$0.348bn |

**EXPORTS AND IMPORTS**

**External trade**

In nominal terms (S$billion)




Source: Dept of Statistics/Singapore Trade Development Board

| | |
|---|---|
| **Principal exports (% of total) – 1988** | |
| Machinery and transport equipment | 48.0 |
| Other manufactured goods | 17.3 |
| Mineral fuels | 15.6 |
| Chemicals | 6.6 |
| **Principal imports (% of total) – 1988** | |
| Machinery and transport equipment | 43.4 |
| Other manufactured goods | 23.8 |
| Mineral fuels | 14.1 |
| **Exports by destination (% of total) 1988** | |
| US | 23.8 |
| Malaysia | 13.6 |
| Japan | 8.6 |
| Hong Hong | 6.3 |
| **Imports by source (% of total) 1988** | |
| Japan | 21.9 |
| US | 15.5 |
| Malaysia | 14.6 |
| Taiwan | 4.5 |
| **CURRENCY** | |
| 100 cents | 1 Singapore $ (S$) |
| Average exchange rates 1988 | $ = S$2.0124 |
| | £ = S$3.5810 |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# SINGAPORE 4

## Andrew Baxter examines foreign affairs

# Normal relations restored

IF A WEEK is a long time in politics, a year must be an eternity in diplomacy. That might be the conclusion to be drawn from developments in relations between Singapore and the US, its major trading partner, over the past 12 months.

This time last year both countries were reflecting on a bizarre spat involving Mr Mason "Hank" Hendrickson, former First Secretary of the US Embassy in Singapore, who was accused by the republic's government of meddling in domestic affairs by encouraging lawyers to run against the People's Action Party in last year's general elections. The affair led to tit-for-tat diplomatic expulsions by both countries and an uncharacteristic spate of anti-US invective from Singapore's politicians and newspapers.

More than a year on, normality has returned to one of Singapore's most important bilateral relationships, and while the imbroglio underlined Singapore's reservations about foreign interference in domestic matters, it could also be viewed simply as a pre-election ploy by Prime Minister Lee Kuan Yew to generate support for the PAP.

In fact, the broad agreement between the US and Singapore on major regional issues tends to transcend a number of *thorny specific areas of disagreement*, such as Singapore's attitudes to criticism of the


George Yong-Boon Yeo

country in the foreign, and especially US-owned, press. An indicator of the underlying consensus came with last month's announcement of an agreement on increased use by the US Navy and Air Force of Singapore's military facilities.

The offer, and its acceptance, is a significant development in its own right, and in the regional context. For Singapore the primary objective is *fulfilled, namely making it easier* for the Philippines to shoulder the burden of the US military presence in the region and thus preserve a safeguard which Singapore considers important to the security of south-east Asia generally.

Given Singapore's strategic *location and excellent port*, the deal will enable the US to maintain a forward presence close to the Straits of Malacca and important shipping routes. The agreement involves a "modest" increase in use of maintenance and repair facilities by US naval vessels, and there will also be short-term visits by US aircraft to Singapore's Paya Lebar airbase. US fighter aircraft have already been deployed to Singapore for exercises with the republic's air force, and US transport aircraft use Singapore as a transit point.

*It should come as no surprise* that Singapore made the offer, given that it has "always taken the position that the US remains the most benign superpower", as BG (Res) George Yong-Boon Yeo, Minister of State for Foreign Affairs, puts it. But it has taken consid*erable efforts by the Government* to allay worries among its neighbours, particularly Malaysia and Indonesia, that the agreement might involve more than met the eye, and lead even to the ceding of land for a permanent US base. Both the US and Singapore stress *the deal is not intended to provide* an alternative to the Clark Field air base and Subic Bay naval base in the Philippines. The agreement "is what it has been presented to be," says BG Yeo.

The episode illustrates a number of important general points about Singapore's foreign policy. First, it is essentially pragmatic: one of Malaysia's objections to the offer was that an increased US presence would be inconsistent with the long-cherished Asean aim of establishing a Zone of Peace, Freedom and Neutrality in *south-east Asia. Singapore* counters that until Zopfan is guaranteed by the superpowers, including China, it would be wiser to look for other arrangements.

Second, the agreement reflects the top priority of the country's foreign policy, which *is, says Mr Yeo, "creating the* most favourable environment for us to make a living". Singapore sees the US military role as a crucial factor in guaranteeing the right environment for its economy to flourish.

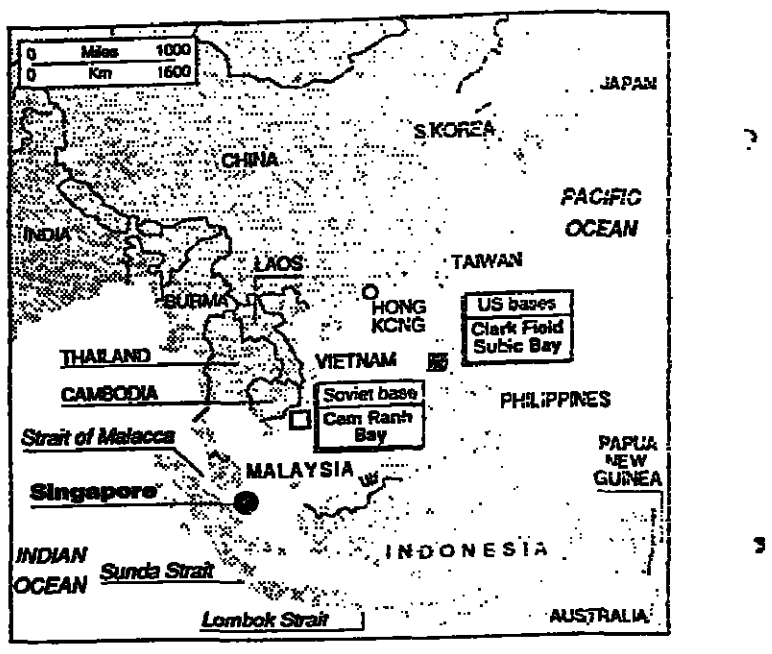
Third, it highlights a recurrent feeling of insecurity and *vulnerability that is perhaps* natural for such a small country surrounded by large neighbours, some of which have had a history of instability. This, too, explains Singapore's cautious attitude to recent events in the Soviet Union and to the worldwide problems of communism, the traditional *bête noire* in the PAP's political pantheon.

The same themes are apparent in Singapore's attitude to other significant events in the region this year. It was noteworthy, for example, that the republic stood out for not con*demning outright the brutal* repression in Peking's Tiananmen Square on June 4, preferring instead to express "concern" over the way in which the students were removed from the square.

One interpretation for this is that the stance was commer*cially-inspired – Singapore did* not want to antagonise the Chinese leadership just when it wants to boost trade between the two countries. The official viewpoint, however, is that Singapore, with its predominantly Chinese population, is in a better position than other countries to understand China's traditions and history, which argue against it becoming a western democracy overnight, according to BG Yeo.

In any case, he says, "we do not presume to tell China what to do", an attitude whose mirror image is the expectation *that Singapore should be* allowed to conduct its domestic affairs without interference or ill-informed external criticism. Sometimes, however, things are not quite that simple, as was shown by the fracas earlier this year over Singapore's threat to cane or imprison illegal foreign workers.

The crackdown led to the mass exodus of 12,000 Thais and Indians working illegally in Singapore, and provoked outrage in Thailand. The bitterness, which is echoed by some non-government sources in Singapore, stems from the argument that the presence of so many illegals could not have developed without the connivance of some Singaporeans. Thai officials also felt that two fellow-members of Asean should have been able to resolve the problem without the need for Thailand to organ*ise a convoy of trains and ships* to bring their nationals home.




For Singapore's part, BG Yeo says the decision to impose the new penalties was not taken lightly, and came after the government had tried every other *means to locate illegal foreign* workers. The affair, he thinks, has now "blown over" – although the initial severity of comments by Thai politicians and newspapers might suggest it would have a more lasting effect.

There is a tendency in Singa*pore to qualify these disputes* as hiccups in otherwise cordial relationships between fellow members of Asean, to which Singapore remains committed, and whose importance to the republic can be gauged by its *desire to see continued* stability and economic development in its biggest neighbours, especially Indonesia.

That the hiccups do not develop into anything more serious is due in no small measure to the excellent personal relationships between Mr Lee and *President Suharto* of Indonesia, and with Prime Minister Mahathir of Malaysia.

## BANKING and FINANCE

# Bitter battle for business

THE all-round strength of the economy this year, following on from the buoyant performance in 1988, is set to give Singapore's *big four domestic* banks a year to remember.

Combined net profits for the banks – Development Bank of Singapore (DBS), United Overseas Bank (UOB), Oversea-Chinese Banking Corp (OCBC) and Overseas Union Bank (OUB) – rose 29 per cent to S$368.4m in *the first half of 1989*.

The figure, however, disguises some significant, and probably irreversible, trends in the "bread-and-butter" domestic deposit-taking and lending business. The 13 local banks, and 22 foreign banks with full licences, have brought the *local market to a high level of* sophistication. Along with the increasingly aggressive Post Office Savings Bank, 14 foreign banks with a restricted licence, and 31 finance companies, they are now engaged in a relentless battle for business in the consumer and commercial loan sectors.

"We're out to kill, to get market share," says Mr Wong Nang Jang, OCBC's executive vice-president for planning and operations. Interest rate spreads are getting narrower, making business volumes ever more important to maintain profits. At OUB, Mr Fock Siew Wah, president, says: "You almost have to generate double the amount of business to get the same return."

Fortunately, demand for loans has been strong so far this year – banks lent S$45bn in the first half of 1989, up 16.5 per cent on a year earlier. But the trend towards increased competition seems set to continue, and in a nation of fairly static population growth and very high level of savings, the incentive to diversify into offshore lending and other products is growing.

It is a trend that is encouraged by the Monetary Authority of Singapore MAS), which regulates the financial sector, and is generally credited with an increasingly, if belatedly, flexible attitude to help Singapore develop as an offshore risk-management centre.

*The product diversification* is motivated in some cases by MAS and government influence and in others by the herdlike instincts which often seize commercial banks when a tempting niche, such as specialised capital market instruments, develops away from *straightforward lending*.

In the former category comes the banks' entry into stockbroking after the 1985 Pan Electric fiasco encouraged the authorities to open up the hitherto clubby, undercapitalised broking industry to banks and foreign institutions.

The strong performance of the Singapore stock market this year, at least until the 10 per cent fall on October 16, has undoubtedly boosted profits in the bank's stockbroking units. Mr Eric Ritter, economist at Baring Securities, says this was a significant feature in the strong first-half earnings growth, but notes, too, the much improved status of non-performing loans since the 1985 recession.

There is less of a pattern to other non-banking activities. The banks' property businesses have developed at different rates, but all except OCBC now have publicly-quoted property subsidiaries.

The competitive domestic scene is also prompting the banks to expand their overseas presence, and particularly their regional activity. All except DBS, Singapore's largest bank in asset terms, have entered the Malaysian market.

The Big Four are also looking closely at Indonesia following its deregulation of banking last year and will all be represented there soon. In China, the entry by DBS earlier this year into a multi-bank *joint venture has given all four* a presence, but business has, inevitably, been hit by the June disturbances.

The more aggressive stance by the Big Four in the domestic market has squeezed some of the foreign banks, which until quite recently had a dom*inant role in consumer lending* and still have 50 per cent of the domestic loan market.

The pressure partially reflects the regulatory environment: even the foreign banks with a full licence cannot open new branches or stand-alone Automatic Teller Machines (ATMs). Lacking, in all but a handful of cases, the broad deposit base of their domestic rivals, they rely heavily on their reputation for service, speed and – for big corporate customers – the advantage of an established global network.

Citibank's typically aggressive approach has given it 30 per cent of the car loan market, says Mr David Smith, business manager, consumer services group. The US bank, with three branches, would welcome the opportunity to open more, but Mr Smith believes any future rule changes will be linked with non-banking issues such as trade.

In the more rarefied world of merchant banking, there are 65 local and foreign institutions, far too many, says one leading foreign banker, for the low level of domestic corporate activity such as mergers and acquisitions.

Not surprisingly, many of the 65 are not really active in the local market, but use Singapore to a greater or lesser extent as a centre for regional lending and capital market activities. Along with the banks, almost all the merchant banks have set up Asian Currency Units, (ACUs), separate book-keeping units with tax *incentives to encourage banking* and financial services, for residents and non-residents, in foreign currencies.

Offshore fund management is also being encouraged, and bankers say the authorities recognise that the foreign houses have a natural advan*tage due to their experience* and the very small number of private domestic institutions with funds to manage.

In the domestic market, the Big Four banks, and especially the newly-aggressive DBS, have used their local distribution network and placing *power to corner the market in* equity issues by Singapore companies, building on the success of their broking units. But high levels of company liquidity are reducing the need for big capital raising operations.

For the foreign institutions, the almost complete absence of overseas takeovers by Singapore companies, and the slow pace of privatisation, give few opportunities to display their expertise in these areas.

Rather than try to compete head-on with the local banks, foreign merchant banks are concentrating on areas where they can add value to the local market, such as high quality advice to big international or internationally-minded clients.

The immediate future for the Big Four domestic banks looks bright with the economy continuing strong. In the longer term, they will be placing increased emphasis on automation, innovation and service improvements to maintain profitability. They will also be exploiting the few remaining undeveloped banking markets, such as credit cards which are relatively under-used by world standards.

Mr Fock at OUB sees the changing spending habits of Singaporeans, particularly younger professionals who are far less conditioned to saving than their forebears, having a great impact on the bank's retail strategies. A sign of the times was its recent decision to set aside a mezzanine floor for yuppies in its main OUB Centre, allowing much more effective cross-selling of more sophisticated products.

**Andrew Baxter**

## STOCK EXCHANGE

# Stirred but not shaken

SO FAR this year, the Singapore stock market has had an eventful ride. It was nicely running up to breach its pre-Black Monday peak of 1,515 when two major events almost derailed its plans.

However, stirred but not shaken, the Stock Exchange of Singapore (SES) is expected to be back on course in 1990, perhaps metamorphosing into one of the world's largest over-the-counter markets after Nasdaq.

The first major shock was the near repetition of the worldwide stockmarket crash which was averted on its second anniversary. In the aftermath, the Straits Times industrial index suffered one of the steepest plunges among world stockmarkets, losing 10 per cent of its market capitalisation against Australia's 8 per cent and Hong Kong's 6.5 per cent.

Then Malaysia dealt another body blow to the bourse as it was making up for lost ground by ordering the Kuala Lumpur stock exchange, which had been its Siamese twin, to instantly de-list Malaysian counters from the SES. Although conditioned for the bad news, no one had expected the speed of implementation called for.

Instead of the anticipated two-year time frame, almost overnight 182 Malaysian counters out of the 329 SES counters will vanish.

They comprise a third of the SES trading volume and market capitalisation,against Singapore's 47 counters and 3 per cent of trading volume on the KLSE.

Business relating to Malaysian shares comprise 40 per cent of the SES turnover of 10.1bn units, while the KLSE would remain untouched at 3.6bn units if it lost business on Singapore counters.

The 10 per cent index plunge was attributed to investor nervousness, to "Clob", the new floorless automated trading system which can swiftly shoot prices up or down, and to the SES's recent bull run.

Until October, the SES had enjoyed perhaps the best improvement in prices, up a *third from its levels last year*. During the crisis,its stock prices were considered overvalued and institutional investors decided to take profits.

After all, a 10-percentage-point drop still meant a net 23 per cent gain. Also, among world stockmarkets, the SES was second only to Japan in terms of growth over the economy.

According to The Economist's survey published in September, Singapore's 1988 market capitalisation over GDP doubled the 1978 figure at $53.2bn against $24.7bn, bettering even New York and London.

The immediate reaction the day after the de-listing announcement was a slight fall in the ST index of 16 points followed by a strong rebound the next day of 30 points.

"All it means is that one of the world's largest over-the-counter markets will spring up here," said Mr Quek Pecklim, head of research at Morgan Grenfell Asia Securities.

Singapore-based brokers do not believe that the market was going to just lie down and die. After all, investors in Hong Kong could buy Singapore shares, so why should it be difficult for those in Singapore to buy Malaysian shares?

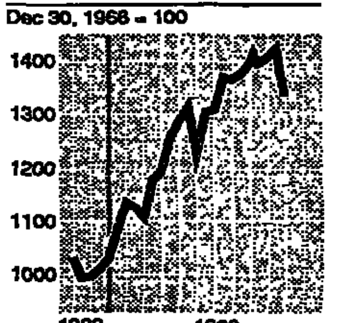
As Malaysian brokers prepare to set up representative offices in Singapore and foreign brokers such as Smith New Court acquire stakes in Malaysian firms, the ultimate test, said a broker, will be the efficient execution of deals at the lowest cost.

"At the end of the day, the market will go to the better-capitalised and better-skilled brokers. The Singapore market may be going through the final phases of its own Big Bang, and what will evolve is a totally competitive market," said Mr Quek.

Singapore-based brokers have not only been able to deliver on both counts, they, like the public companies, are *better controlled as well*, following a series of tightening-up rules taken after the 1985 collapse of Pan-Electric Industrial Group, which resulted in the unprecedented closure of the two exchanges

**Straits Times Industrial index**

Dec 30, 1966 = 100




for three days and the demise of five brokerages.

A way must now be found to continue trading in Malaysian shares while increasing the number of homegrown counters to make up for the loss to the KLSE, and quickly. A whole host of possibilities have arisen.

There had been talk of a parallel bid and quote system for Malaysian counters beyond the SES's purview. An exchange sub-committee was set up to look into the possibility of trading in the securities of companies in the Asean region, in view of the low set-up costs, Clob's adaptability to handle this market, a concessionary 10 per cent for trading in non-Singapore dollar stocks and stamp duty exemption, and the city's excellent communications system.

SES president Lim Choo Peng had expected the organised trading of some regional stocks to take place before the end of the year. The SES is also said to be considering extended trading hours.

Financial instruments such as a Malaysian stock index and covered warrants on Malaysian *stocks may be introduced* while the organised market for options could be resuscitated.

The monetary authority of Singapore, the central bank, said that the SES would have to improve its competitiveness and efficiency and encourage suitably qualified local and foreign firms to be listed on the exchange to increase market depth.

The exchange is currently reviewing its commission structure and developing a scripless settlement system. Mr Hiroshisa Eto, the president of Nomura Merchant Bank and a member of the SES board, had recommended that the SES increase the total value of its listed companies to S$77bn this year to attract foreign investors. The market capitalisation was S$57.7bn last month.

He also suggested that privatisation of government-linked companies be speeded up with the listing of companies such as Singapore Telecom as soon possible to compete with the fast growing markets in Taiwan, South Korea and Thailand, adding: "The SES is too slow to list new companies and must urge underwriters to issue good companies quickly to stimulate the equity market," he said.

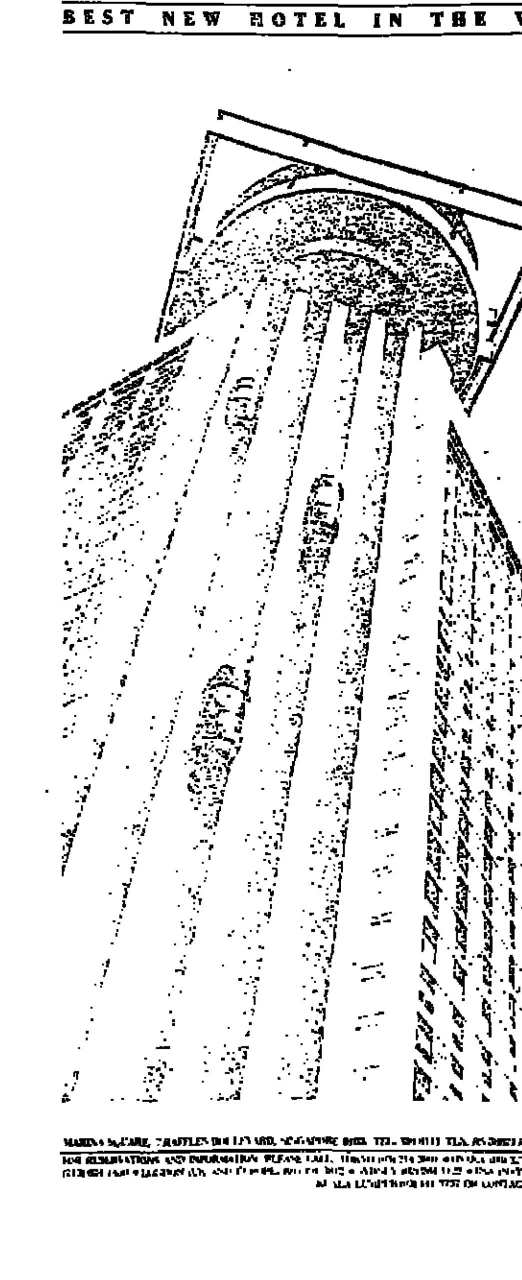
The Malaysian de-listing may also have precipitated the coming of age of Sesdaq, the second-tier stockmarket. None of its 14 counters fell in the aftermath; perhaps in anticipation of their graduation to the main board another boost came from funds such as the S$30m Singapore Sesdaq fund with lead broker Hoare Govett to invest in the exchange. Such interest has pushed daily volume to as much as 22m shares.

To date, stockbrokers have done well. The implementation of Clob had more than doubled *the daily turnover record of* 85.7m shares to 213m this year. This has translated into healthy figures, especially for the top five brokerages, mostly locally-owned independent firms. The largest, Kim Eng Securities, earned S$5.7m in after-tax profits based on a S$17m turnover and is a possible listing candidate.

After weathering the 1985 collapse of the Pan-Electric Group, which led to an unprecedented trading suspension on the SES and KLSE, two Wall Street disasters, and near-term bearish predictions, players in *Singapore believe that* with a little help from the authorities in bringing breadth and depth to the market, the SES should scale new heights.

**Joyce Quek**

BEST NEW HOTEL IN THE WORLD — Business Travellers' Survey '89



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* Valid from 1 June 1989 — 31 Dec 1989.

THE PAN PACIFIC HOTEL Singapore

## INTERNATIONAL MONETARY EXCHANGE

# Respected performance

THEY can breathe easier now *at the Singapore International* Monetary Exchange (Simex). When it came to the crunch, Simex delivered – it was able to go from zero to 20,000 daily futures contracts in five years.

Had it failed, the exchange would have lost the world's pioneering mutual offset link-up with the Chicago Mercantile Exchange at the halfway stage of their agreement on September 7. Despite its detractors, there is no gainsaying that Simex has given a gutsy performance and deserves respect. By the year-end, it will be one of the world's 10 most active futures exchanges.

It was not easy getting there. The young exchange has had to fight every inch of the way to survive against bigger rivals with better liquidity, menus, and interest. As soon as one obstacle was overcome, a new one would loom.

Simex's initial problem was the lack of liquidity which required players, products and publicity to generate interest. Armed with tax breaks, lower commission rates and speeded-up permanent resident applications, it set to work. New seats were created, market-makers brought in, marketing campaigns launched worldwide and special associate memberships created to trade in specific products at special rates. More importantly, new contracts were introduced.

All its 550 seats have been sold but not many of its 11 contracts have enjoyed success, especially US treasury bonds, gold and options. It had initially been a one-trick pony with the Eurodollar contract but the newer products such as fuel oil and Euroyen interest rate futures have added variety and much volume.

The Asia-Pacific rivals are the Sydney, Hong Kong, Osaka and Tokyo exchanges, albeit in varying degrees. Sydney, the oldest, has larger volume but is often seen as a market unto itself.

Hong Kong has not fully recovered from broker defaults in the aftermath of the October 1987 Wall Street crash when it needed a government bail-out to survive.

That leaves the Tokyo International Financial Futures Exchange (Tiffe) and Osaka exchange, each with a major contract to rival Simex's – the Euroyen Interest Rate Futures on Tiffe and Nikkei Stock Index Futures on Osaka.

Simex counts heavily on the two contracts which generate a third of its trading volume. The two exchanges have the advantage of the Japanese preference for trading in home markets and the contracts being denominated in their own currency and traded domestically.

Since starting on June 30, Tiffe achieved a daily average of 20,000 contracts in its first month against Simex's 26,000 for the first nine months of the year.

Of its three contracts, the Euroyen contributes more than 90 per cent of the trading volume. Both Tiffe and Osaka have done better than Simex on the Nikkei SIF contract.

The battle-hardened Simex countered with the mutual offset system which allows a 24-hour clearing capacity and halved commission costs, as the opening of a contract on one exchange and closing on another is treated as one transaction. It also offers lower transaction costs and longer trading hours.

It remains to be seen whether the two exchanges' Euroyen contracts will complement each other, leading to intermarket activity and mutually increasing volume.

Simex is also convinced that Globex, the new screen-based trading system developed by CME and Reuters, will complement but not replace the mutual offset and open outcry system. The talk from Chicago is that the mutual offset link may become redundant once Globex gets going.

The exchange is not only unconcerned, it is even doubtful about the viability of the as-yet untested worldwide electronic trading and its ability to make market and guarantee liquidity.

If the worst comes to the worst, the exchange may not be afraid to go it alone. It introduced the high sulphur fuel oil (HSFO) contract without requesting that it be put on mutual offset.

It did not follow the New York Mercantile Exchange's crude oil contracts but opted to introduce a bottom-of-the-barrel product to complement other exchanges' top and middle products.

The exchange will launch a second energy contract next year. The HSFO contract is the closest thing to a domestic contract for Singapore but that is not enough. Its own stock index would be an ideal pioneer but that contract awaits the Stock Exchange of Singapore's ability to design and compute a new underlying index and produce real-time information on stock movements. It is working towards updating stock market indices every minute, which will facilitate trading and give Simex the added edge it requires to keep pace with its competitors.

**Joyce Quek**

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**Andrew Baxter** looks at infrastructure and transportation

# Hub of south-east Asia

ANYONE who thought that Singapore might be resting on its laurels after the major infrastructural developments of the past 20 years can find unmistakeable evidence to the contrary within minutes of arrival at Changi Airport.

As the taxi journey to the city centre begins, the vast bulk of Changi's Terminal 2, due for completion by late 1990 at a cost of S$766m, looms on the left. The new terminal will double Changi's stated capacity to 20m passengers a year, which compares with the 12.6m who used the original terminal last year.

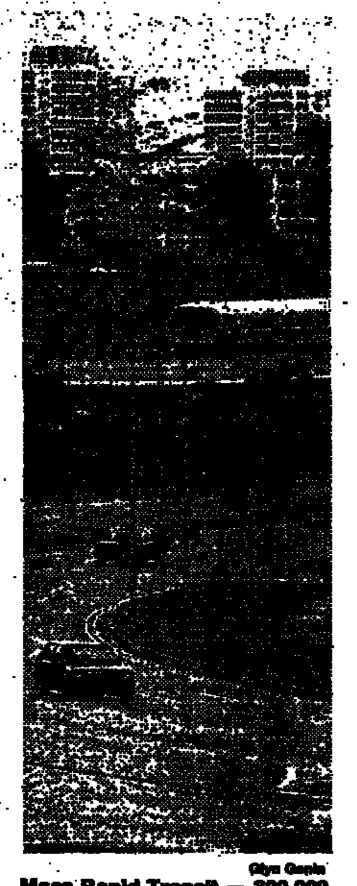
But even as Terminal 2 is under construction, detailed planning for a third terminal has begun, and plans for a fourth terminal are being drafted. Mr Tan Guong Ching, permanent secretary (communications) at the Ministry of Communications and Information (MCI), notes that planning so far ahead is necessary for building terminals: along with the extensive land reclamation that would be necessary for a fourth terminal, the entire project, if it went ahead, would take 13-14 years.

Behind the expansion lies Singapore's determination to retain its lead as the transportation and communications hub for the region. "Because other major airports are quite close to Singapore it is possible for any to be a competitor," says Mr Tan. "Bangkok is a serious competitor, and our approach is further to improve our facilities and services."

Developments at Changi illustrate a principle that guides Singapore's transportation and infrastructural planners: think long-term, make projections of future demands and then plan, wherever possible, to meet them comfortably.

These demands are now changing as Singapore's economy reaches a new level of maturity. With most of the basic infrastructure essentially complete, a second phase of strategic planning is now under way to emphasise quality beyond the basics – recognising the fact that sustained economic growth will continue to raise people's expectations regarding living standards.

In September, the Ministry of National Development (MND) announced preliminary findings from the first phase of a review of its Concept Plan to assess the country's land needs up to 2030. This concluded that Singapore can comfortably sustain a population of 4m – by 2030 the population is expected anyway to have grown to 3.4m from 2.6m now – provided economic expansion continues as forecast. That would enable the country to finance major reclamation, housing and transport development programmes.



Glyn Genin

Mass Rapid Transit – 320,000 trips a day

In housing, a population of 4m would require the number of households to be increased from 600,000 to 1.3m, but smaller families and acceptance of the need for higher standards will, in any case, have a big impact on future plans. The Government wants to make available a wider choice of housing, particularly in the private sector, and provide more medium- and low-density housing.

Mr Lim Hng Kiang, deputy secretary at the MND, says a large stock of rented housing in the public sector is now becoming obsolete. Their demolition, and replacement with new housing, is costing S$800m a year, while the renovation programme will cost S$15bn over 15-20 years.

The aim is to increase floorspace for the average Singaporean from about 20 sq meteres to 30-35 sq metres in future. To help ensure that the more demanding citizens of the 1990s get what they want, estate management is being devolved to the new town councils. This, said Mr Lim, would encourage diversity in housing.

Phase two of the review will determine the most appropriate locations for different land uses, and will be completed by next year. Clearly, with land being such a scarce resource, reclamation and transport planning will become ever more important. A major reclamation project, Marina South, is taking shape close to the main city area, and will form part of plans to increase urbanisation there. For the future, preliminary studies suggest it would be possible to increase the current land stock of 628sq.km by 15 per cent.

On the roads, S$200m is being spent annually on a five-year upgrading and development programme. The second, 3.7km phase of the new Central Expressway is under way and for the first time contains road tunnels under the central business district. These save space, but cost three times as much as normal expressway, says Mr Lim.

On road planning generally, the MND says there is sufficient land to build enough roads to sustain economic growth, but not enough to accommodate an unrestrained increase in the car population. The 239,000 cars on the road at the end of 1988 worked out at 86.6 cars per kilometre, against 62 in the UK, 43 in Japan and 27 in the US.

For Singapore this makes the continued development of a coherent public transport policy a top priority. The centrepiece is the S$5bn Mass Rapid Transit (MRT), which opened partially in late 1987 and will have 67km of track and 42 stations by next year.

Mr Tan said ridership on the 40km opened prior to November 4 (when a further 13km was brought into use) was above projections at about 320,000 trips a day. There is some disappointment that not as many car-owners as bus users had switched to using the MRT so far, but confidence that the transfer would be greater once the system is open fully. Ridership is expected to reach 700,000-800,000 journeys a day by 1992.

Some bus routes running parallel with the MRT have already been dropped and there are plans for further substantial alterations and rationalisation. The full introduction by 1992 of an electronic ticketing system allowing transfer between buses and MRT is a key element in securing the success of the network as a whole in policy terms and also financially.

The MRT was built by the government, and leased at a nominal charge to a private company, SMRT Ltd, which has to put aside funds for replacing the infrastructure. In its first 18 months the system had after-tax operating profits of S$27m, but a notional final loss of S$33m after a S$60m provision. Eventually, the aim is for the MRT to be profitable even after the set-aside.

Meanwhile, attempts to discourage rush-hour car-driving are likely to become more sophisticated. It is 14 years since Singapore's Area Licensing Scheme, which imposed a fee on car users entering the central business district (CBD) at rush hours, came into force – although until this year the fee was waived for a car with three passengers. But because enforcement and fee collection is too labour intensive, there are tentative plans to introduce electronic road pricing.

The MCI is now very actively looking at developments in Europe on electronic pricing, although Mr Tan notes that the aim of most European systems is to raise revenue rather thanachieve better traffic distribution. It is hoped that a pilot project could be carried out in Singapore in 1991, with full implementation by 1992 or 1993. The initial aim is to convert the CBD scheme to electronic road pricing, perhaps using "smart card" technology in the cars and electronic sensors in the road lanes.

To complete the transport picture, major expansion is also planned for Singapore's seaport, which last year was the world's busiest in shipping tonnage, surpassing Rotterdam, and second largest container port after Hong Kong. A new S$1.25bn container terminal is being built on Pulau Brani, an islet close to the present port. This will have an annual capacity of 3.8m TEUs (20ft-equivalent units or standard containers), while container capacity is being increased in the present port by conversion of conventional handling facilities.

By 1998, the port will have container capacity of 9.3m TEUs a year, against 4.1m now, but Mr Tan says projections suggest that will just barely be enough.

ELECTRONICS INDUSTRY

# Regaining ground

THE downturn in the global electronics industry, and import reductions by many of the city's key trading partners, have been the main reason for this year's slowdown in growth in Singapore's manufacturing sector, which led the country's industrial economy out of the 1985 recession.

The electronics industry, which comprises 40 per cent of the manufacturing sector, has been slipping since its heyday in the first quarter of 1988 when it notched up year-on-year growth of 35 per cent. Growth slipped to 11.5 per cent and 3.9 per cent respectively in the first and second quarters of 1989.

External demand factors, such as the worldwide overcapacity in the disk-drive industry, led to a fall in the production of disk-drives and computer peripherals, especially for US companies.

However, things are looking up for electronics in the second half of 1989, with increased orders for disk-drives and peripherals, and investment commitments in manufacturing pointing to a pick-up in the medium term. Forty-four per cent of the S$500m in manufacturing investments committed this year are earmarked for the manufacture of consumer electronic components and systems.

The trend showed up in Singapore's September trade figures, which were far better than July and August performances. Domestic exports were boosted by a 13.6 per cent rise in non-oil exports, particularly in data processing machines such as disk-drives and computer peripherals.

Mr Lim Soon Hock, managing director of Compaq Computer Asia, measures how well companies are doing by the amount they spend on computers and when he looked at orders in the pipeline, all indicated that the economy was going to do better than predicted.

The electronics industry started in the 1960s as assembly plants for consumer products such as radios and television sets, and then went into component manufacturing and, lately, advanced electronic industrial products such as computer assemblies and computer peripherals.

Made-in-Singapore electronic and electrical goods now range from integrated circuits to printed circuit boards, electronic components, computers, disk-drives, printers, keyboards, television receivers, and telecommunications equipment.

Most of the world's major electronic companies have a factory in Singapore – Japan's Matsushita has seven. Others include Apple, Hewlett-Packard, Seagate and Texas Instruments from the US: Philips, Siemens, and Thomson from Europe, and Hitachi, Mitsubishi Electric, NEC and Sanyo from Japan.

Glyn Genin

The electronics industry comprises 40 per cent of the manufacturing sector

**PERFORMANCE OF THE MANUFACTURING SECTOR (changes in real output)**

| | 1988 | | | 1989 |
|---|---|---|---|---|
| | Annual | 1st half | 2nd half | 1st half* |
| | Percentage change over the same period a year ago | | | |
| TOTAL MANUFACTURING | 18.4 | 21.7 | 15.5 | 9.8 |
| Electronic products and components | 28.1 | 33.4 | 23.6 | 7.4 |
| Electrical machinery, apparatus, appliances and supplies | 19.5 | 24.3 | 15.5 | 15.9 |
| Petroleum | 4.7 | 9.8 | 0.6 | 18.4 |
| Machinery including oil rigs | 20.3 | 15.6 | 24.5 | 30.3 |
| Shipbuilding and other transport equipment | 20.7 | 10.2 | 30.6 | 30.1 |
| Fabricated metal products, except machinery and equipment | 17.7 | 22.7 | 13.6 | 6.0 |
| Printing and publishing | 10.6 | 10.6 | 10.5 | 14.6 |
| Paints, pharmaceutical and other chemical products | 3.5 | 24.3 | −12.3 | 8.6 |
| Wearing apparel | 6.3 | 5.8 | 6.7 | −5.7 |
| Industrial chemicals and gases | 6.9 | 8.8 | 5.0 | −4.6 |

*Preliminary

Source: Economic Development Board, Singapore

Nixdorf successfully transferred all its worldwide production of point-of sale terminals to its Singapore plant.

The presence of such industry leaders has increased the technology of the products manufactured. Local and foreign companies have spurred each other to introduce design and development activities in their operations to such an extent that the industry accounts for half the republic's research and development activities.

For example, all Philips audio equipment produced in Singapore is being designed and developed by local engineers, Hewlett-Packard engineers in Singapore are designing the keyboards for all its worldwide operations, and AT&T Consumer's R&D has been awarded "Bell Labs subsidiary" status for telephones, the first non-US facility.

Such activities in the components industry have resulted in the installing of state-of-the-art surface mount technology (SMT) while the semiconductor industry has "backward-integrated" into the design stage.

With strong official support, local companies have also quickly exploited product development to increase their market share in goods such as modems, medical electronic products, microcomputers, VHF radios, burn-in test equipment and a range of microprocessor applications.

Locally-owned personal computer manufacturers have found worldwide favour with their highly cost-competitive and reliable IBM-compatibles. One example is Wearnes Technology's ALR brand which has won awards in the US for its design and capabilities.

Many consumer electronic multinationals with local manufacturing plants, including Sony, Philips and Thomson, have, or are looking at, setting up production technology centres and/or operational headquarters in Singapore.

With the disk-drive manufacturing industry moving more and more towards the use of SMT printed circuit board assembly as the trend points to the use of 3.5 inch and, soon, 2.5 inch form factors, Singapore has reputedly the second largest SMT-installed capacity in Asia after Japan.

This bodes well as electronic assembly moves swiftly to adopt the higher productivity method of SMT rather than the hole automatic component insertion method.

**Joyce Quek**

PROFILE: KEPPEL CORPORATION

# Triumph for civil servants

SIX years ago, the mere mention of Keppel Shipyard would have drawn derision. The story of how, in two three-year cycles, Keppel had plumbed the depths and then surged into profitable waters would make a case study for any business school. The renamed Keppel Corporation is now toasted as a shining example of how a state-linked company can be successfully turned by ex-civil servants into a well-run multinational corporation.

Publicly-listed Keppel had built up its shipbuilding and repairing business to record profits year after year. In 1983, mindful of its overdependence on its mainstays, which were becoming sunset industries, it sought to diversify into property, finance and manufacturing. The decision was right, the timing was not.

On paper, the US$210m acquisition of the Straits Steamship Group looked like a good route into property, shipping, engineering, food,travel, trading and overseas ventures. Straits had enjoyed five years of profits and had seemingly thrown out losing concerns.

However, exuberance soon faded when the property market went into a glut and its overseas businesses soured. Its first figures after the takeover was a sea of red ink. Keppel became saddled with debt just trying to make interest payments on the purchase.

All this happened as Singapore plunged into its first recession in 20 years in 1985.The extent to which Keppel was hit stunned everyone. Attributable profits of US$41m in 1983 were followed by losses of US$89.6m and US$67m in the next two years. At this stage a new management team, led by ex-civil servant Sim Kee Boon, arrived to "flush out the rubbish". His strategy was to prepare the group against the day the world and local economy turned down by diversifying in terms of geographical and business mix without being too highly geared.

Mr Sim and his team also pared staff, froze wages, closed down losing ventures and sold assets. The results tell the story – from 1986 to 1988, attributable profits rose from S$2.6m to S$20.6m. For 1989 and 1990, analysts have forecast S$33m and S$46m.

Swiftly disposing of unprofitable areas, he concentrated on putting its finances in order. In five years, the group had raised S$500m through a mixture of convertibles, cash calls, private placements and new shares – in effect converting loans into equity.

With the solid backing of its parent, state-owned Temasek Holdings, Keppel has become so adept at sourcing funds for expansion that it has arguably one of the best treasuries in town, squeezing the finest rates, as any international financial banker will tell you. It has tapped the Euromarket with bonds, gone to the US via commercial paper and American depositary receipts, and is listed in London. The best news is that it is now earning net interest income.

In Singapore, the listed companies comprise Keppel, and the two halves of Straits Steamship – Straits Steamship Land and Steamers Maritime – which house the property and part of its shipping activities, rig-builder Far East Levingston,ship builder and repairer Singmarine, and Keppel Finance.

Keppel Philippines and Cebu Shipyard are listed on the Filipino exchanges. An associate company in India, which operates a yard with the Chokhani Group, is perhaps a future listing candidate.

The Keppel Corporation Group (projected S$480m turnover for 1989) is a core holding in any south-east Asian portfolio for several reasons. The first is that it is Singapore's largest diversified marine group,which holds a substantial edge over other shipyards.

Timing has come right for the group. The current three-year cycle covers a period of upswings which augur well for Keppel's designated core businesses of shipbuilding and repairing, offshore construction, property and financial services. Even smaller contributing divisions such as leisure are set to tap the upwardly aspiring and growing group of yuppies. As a result, the restructured Keppel stable of eight listed companies has been busy tapping the market. It is the market leader in the local ship repair industry with a one-third share.

Brokers such as James Capel and Merrill Lynch expect the industry to outperform the stockmarket with two years of sustainable growth of 40 per cent. Due to an ageing world fleet, the upsurge in shipping and the higher cost of new ships, analysts believe yards are poised to turn in their best performances since the last peak in 1981. They expect them to continue to monopolise business as the world's cheapest and most cost-efficient centre.

In offshore construction, Far East Levingston is a highly-competitive world leader in rig technology and the only surviving rig builder in Singapore.

Property company Straits Steamship Land, already the second largest owner of office space in Singapore with 1.2m square feet, harbours ambitions of becoming number one by 1993/4. Again, it expects higher development profits over the next two years.

Keppel went into financial services to provide factoring and has emerged the leader in marine factoring. It has branched into finance, stock-broking, insurance, and a 10 per cent stake in a bank.

Teo Soon How, Keppel's group financial director, has been with the group through the lean and fat years. Like Mr Sim, he is confidentthere will not be a repeat of 1983. "We're better positioned now. We're obviously preparing ourselves to cope with any downturn in the market."

**Joyce Quek**

**Joyce Quek** investigates the property scene

# Developers are walking tall

THE local property market has not seen such activity since the early 1980s. This time round, the speed at which properties have changed hands, and the rising prices, have left participants and observers gasping. When world stock markets suffered following Wall Street's fall, property counters on the Singapore bourse fared better than other sectors.

Lest anyone concludes that the increased action means something has got to give, it certainly will not be the price nor the interest. Large deals are expected to continue for a while as records set for office, retail, industrial and warehouse properties tumble.

The influx of eager buyers, particularly from Japan and Hong Kong, is swarming alongside local property groups for any kind of worthwhile buys.

As an indicator, the Japanese who often concentrate on commercial properties, have been buying residential properties as well.

What is especially attractive to foreign investors is that government approval is not required for the acquisition and sale of any commercial property, and the absence of capital gains tax on the sale of properties held for investment.

It is only in the residential property market that consolidation may now be taking place. The factors that spurred the housing boom include the underlying confidence especially of foreigners in Singapore, the banks' willingness (until recently) to fund up to 100 per cent of the property, low interest rates and low taxes.

A change in government policy – to release 53 hectares of state land and ease restrictions on the sale of state-built flats – is cited as a stabilising factor.

The whole of 1988 saw record property sales of US$1bn being struck but so far this year, the figure has almost doubled, thanks to the S$356m acquisition by Sogo, the Japanese department store, of choice properties along Orchard Road – the paragon complex and adjacent land.

The Malaysians and Indonesians, so dominant in the 1980-81 property boom, have been displaced by the Japanese with their strong yen and long-term investment views, and people of Hong Kong, with the June 4 massacre and 1997 in mind, looking overseas for investment opportunities. The Japanese with S$1bn worth of commercial property deals are equally matched by the hongs from Hong Kong.

The top investment prize goes to the Suntec group, the investment vehicle of Hong Kong's business *crème de la crème.*

They include cinema financier Run Run Shaw, Frank Tsao, property developer Cheng Yu-Tung and the colony's richest man, Li Ka-Shing. Their project is the S$618m Singapore international exhibition and convention centre at Marina Square, which is on reclaimed land.

A man who has been able to double his money with seeming ease is Oei Hong-Leong. He gives new meaning to the term "quick turnover ratio". His locally-listed company, UIC Limited, acquired the promenade building along Orchard Road. Singapore's Oxford Street, for S$52m in 1987 and sold it in 1988 to Tokyo-based Chinese businessman Paul Sun for S$80m.

Mr Oei then used the proceeds to acquire, for what was then considered a pricy S$144m, the neighbouring Paragon shopping and office complex, which he sold to Sogo in September, only to exchange part of the S$356m proceeds for a significant stake in listed property giant Singapore Land in anticipation, some said, of an eventual takeover bid. The property and stock markets await with bated breath for Mr Oei's next move.

One who rivals Mr Oei in vision is Ong Beng Seng, often tipped as a business leader to watch. His portfolio of interests include hotels, oil trading and property. His fast footwork involves finding the right partners to participate in acquisitions which he is expected to dispose of at a handsome profit.

He pulled in Japanese developer Kowa to share in a business district office project and listed luxury goods dealer, Transmarco, to acquire the Meridien hotel-cum-shopping complex.

Paul Sun is another property tycoon who makes headlines each time he buys property here, in August 1988, he paid S$71m for Plaza by the park and was offered S$82m for a half stake a year later. At last count, Mr Sun's property deals totalled some S$214m in two years but in the current scenario, this is increasingly considered small.

The Japanese have been led by trading giant C. Itoh and department stores Sogo, Takashimaya, Seibu and Isetan. C. Itoh has participated not only in Mr Sun's deals but also in the local Hong Leong/City Development groups in the massive Republic Plaza office project.

For the time being, at least, the bubble is unlikely to burst, say property consultants, pointing to the general well-being of the economy, the scarcity of choice land and the voracious appetites of investors.

David Lawrence, managing director of property consultants Richard Ellis, has been bullish about the property market, even when few agreed with him. His optimism has been justified by his firm's involvement in quite a few large deals.

Mr Lawrence had felt for some time that Singapore commercial property was undervalued, because of the future potential of the road, housing, mass rapid transit and telecommunications infrastructure.

For that reason,the Japanese are going to lead the Europeans, making major investments in the property market over the next few years.

By 1993, the face of Singapore will have changed. The central business district will feature towering office complexes vying to be the tallest outside the United States. Orchard Road will be dotted with Japanese retail giants siting their stores along its busiest stretches.

The government has not been slow in asking for better as well as bigger buildings. In seeking better realisation of the potential of sites, it had called for re-tenders for two major sites, one of which Hong Kong's Sir Yue Kong Pao bid 22 per cent more than his nearest rival.

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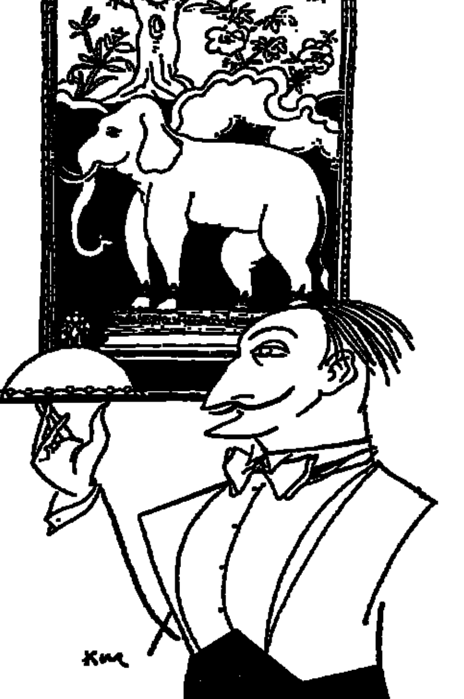


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Andrew Baxter discusses the tourist industry

# Where the exotic east meets west

A VISIT to Raffles Hotel, the 103-year-old landmark which, said Somerset Maugham, "stands for all the fables of the exotic East", is rather less than a fabulous prospect.

The 127-room hotel is closed for a major restoration, which, it is hoped, will restore to its former glory what had recently become a slightly down-at-heel stop on the Singapore evening tour circuit. It will re-open in 1991, and is to be declared a national monument.

The turnround in the hotel's fortunes is the result of a fresh approach to the preservation of Singapore's past, a consideration which came a long way down the list of priorities in the worst excesses of the construction boom prior to the 1985 recession. It was not so long ago that the Raffles itself came close to total demolition.

Just across the road in the glitzy Raffles City shopping and office complex, Mr Lim Chin Beng, chairman of the Singapore Tourist Promotion Board, explains the change in policy: "There was a real problem about four or five years ago. News was going around the world that Singapore had knocked down all its old buildings. Now we've stopped demolishing, and restoration is the byword."

Whether too late, only time will tell, but since 1986 the Government has heeded the warnings from the tourism industry and backed the restoration effort with S$1bn for a five-year conservation, improvement and development programme.

Given the importance of tourism to the economy, it seems the Government had little choice. Last year, tourist receipts totalled nearly S$5bn, and some 100,000 people were directly or indirectly employed in tourism. The "value-added" generated by the industry, about 50 cents for every dollar spent, accounted for 5.4 per cent of gross domestic product.

The restoration programme, while impressive, is just part of a wider effort to boost Singapore's intrinsic qualities as a tourist destination. Hand-in-hand with this initiative, and of equal importance, is a new effort to boost the island's role as a centre for touring the entire Asean region.

"We want to market ourselves as an introduction to south-east Asia, because we have the mix of the east and the west," says Mr Lim. "After tourists have visited us they can go to more remote destinations, then come back to Singapore, perhaps for shopping."

The strategy makes sense for a country which, despite tougher competition, is still the regional transportation hub, and much less of a culture shock for western tourists, and to an even greater extent the Japanese, than neighbouring countries.

Yet it lacks the natural features that attract so many foreigners to the region. Mr Lim said Singapore is already doing joint tourist promotion with Malaysia and Thailand, and working towards one with Indonesia. A multilateral effort is expected for Visit Asean Year in 1992.

At home, the five-year programme, and private sector initiatives encouraged by the Government, aim not only to revitalise old buildings, but to widen the range of attractions, publicise the lesser-known spots better, and add to the list of annual events.

Restoration projects include the world-famous Bugis Street, long cleared of its more colourful human accompaniments. Shop outlets and food hawkers will be returning in 1991. The plan, as it were, is for some of the spontaneity to return, too, without the transvestites.

The biggest single restoration project was announced last month and involves the conversion of 60 warehouses and godowns at Clarke Quay, on the Singapore river, into an integrated shopping, entertainment and cultural centre. This is due to be completed by 1993.

To add diversity to the product mix, Singapore will get its first beach resort hotel by late 1992 on the leisure island of Sentosa, just south of the main city area. On the waterfront, the opening of a cruise terminal in 1991 will enable Singapore to develop a role as the cruise gateway for the region. Meanwhile, a European consultancy firm will soon be commissioned to study the possibilities for exploiting four other tiny islands, normally reached now by cruiser or the more traditional bumboat.

Culturally, the most important development has been the signing at high level of a five-year agreement with China, under which a different exhibition of Chinese art and artefacts will come to Singapore each year. The first, from the Qing Dynasty, runs until the end of this year at the restored Empress Place building, across the river from the Central Business District.

At a more conceptual stage is the possibility of staging a Formula One grand prix, perhaps between the Tokyo and Adelaide races. Mr Lim said reaction from the car manufacturers had been favourable, but pointed out a circuit would have to be built with private money – the Government will not allow a Monaco-style event on the streets. It also forbids tobacco advertising.

With the five-year restoration programme at half-way stage, the benefits seem to be showing up in the tourism statistics, although many other factors are also at work.

Among these are Singapore's low inflation and strong currency, which is keeping prices competitive. Also, the new Boeing 747-400s are bringing Singapore closer in the minds of Europeans, says Mr Lim. Singapore Airlines began the first non-stop flights from Singapore to London in May, and Mr Lim hopes journey times from the west coast of the US will also be reduced soon.

Further factors are the growing prosperity in the region, and one-offs such as the 73 per cent rise in visitors from South Korea so far this year. That follows lifting of Korea's age-related bans on overseas travel.

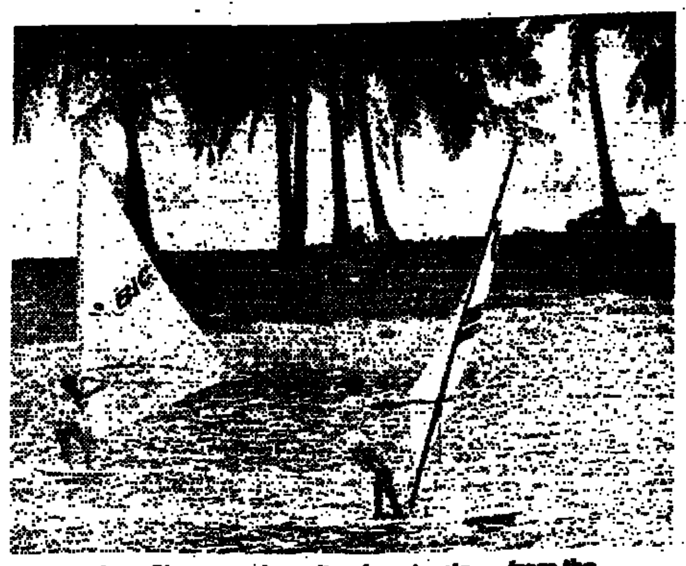
Last year, the number of visitors to Singapore surpassed 4m for the first time, rising 13.8 per cent to 4.19m. In the first seven months of this year, visitor arrivals rose 14.8 per cent year-on-year to 2.68m. More significant than the bare numbers is the fact that repeat visitors accounted for 53 per cent of the total last year, and only 8 per cent of visitors were simply in transit.

For the next five years Mr Lim's target is to raise the average length of stay from 3.5 days, to 4, thus boosting tourism's contribution to the economy. There is, however, a mathematical obstacle: the largest single group of visitors, the Japanese, are the shortest stayers but the biggest spenders.

At the present growth rate, visitor arrivals should top 5m by the end of 1990. Projections beyond that assume an 8 per cent annual rise in visitors, but Mr Lim warns this figure has proven too conservative in the past.

The success of the restoration effort will be important if Singapore wishes to achieve or exceed the STPB target. But while global and regional economic developments are largely out of Singapore's control, there is a significant, and familiar, domestic supply problem.

Hotel room occupancy rates have been hovering between 80 and 90 per cent this year, and Mr Lim warns that more hotels will be needed by 1992 assuming current growth trends continue. Fortunately, several major projects are in hand, but it seems the re-opening of the Raffles will be a stroke of good timing.



For tourists, Singapore is a city of contrasts – from the modern craze for windsurfing (above) to trishaws (below)

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The Japanese in retailing

# Opportunities are quickly exploited

ON THE first floor of Sogo's Raffles City department store, a row of bulbous test-tubes perch atop an elegant marble counter ready to dispense coffee to the thirsty shopper, who can drink as if consuming the end product of a complex laboratory experiment.

It's a touch of pure marketing, Japanese-style, and an indication of an increasingly sophisticated and diverse retailing scene in Singapore. The air-conditioned shopping plazas of Orchard Road and thereabouts are beginning to assume the appearance of an equatorial Bond Street and Ginza rolled into one.

At first glance, the Japanese push into Singapore's retailing sector seems like a recent event, post-recession and following the appreciation of the yen. That has encouraged Japanese investment in Singapore, and Japanese tourist travel abroad.

In fact, there have been two distinct waves of Japanese expansion into the sector: Isetan and Yaohan, each with five outlets, have for long been integral parts of the local retailing scene. Isetan (Singapore), which is one of only four retailers listed on the Singapore Stock Exchange – out of an estimated 15,500 retailing companies – began as a private company as long ago as 1970.

Then in the 1980s came the second wave – Sogo, Daimaru and Tokyu – each with one store. And more are coming: Seibu is tying up with the local Metro Holdings and due to have a presence in the republic very soon. Takashimaya is building a major store in Orchard Square, due to open around 1992.

"It looks like an increasingly Japanese-dominated scene in Singapore's retailing sector," says a brokerage analyst. "Not only do they have an appeal to the consumer, but they are also willing to sustain losses."

Typically, the Japanese have been quick to exploit new opportunities. Isetan has opened two speciality outlets next door to Mass Rapid Transit stations, and renovated its stores to incorporate designer boutiques such as Gucci and Chanel, enhancing their allure for high-spending Japanese tourists. Sixty per cent of the company's S$200m-250m of annual sales are made to tourists, and 15 per cent of its customer base is Japanese.

The more recent Japanese arrivals have differing strategies, Sogo aiming more for Japanese tourists and Daimaru for Japanese expatriates, according to another observer. Tokyu, the newest arrival, has just celebrated its second anniversary, and has yet to make an impact.

**In fact, there have been two distinct waves of Japanese expansion into the sector**

The Japanese have been the most important foreign competitor for local retailers, and competition is squeezing margins. Analysts agree that local stores may "feel the heat" in the face of the strong image of some of their Japanese rivals, but note there may be opportunities for them if they concentrate on the middle market.

As ever the familiar constraints on growth are sounding warnings for future growth prospects. Labour costs are the sector's largest component of operating costs after rents, and wages are up 8-10 per cent from a year ago because of the labour shortage.

The tight supply of retail space has also been boosting prime rentals to all-time highs, according to James Capel. This explains the move by Japanese retailers to hedge against rental increases by buying retail property – such as Sogo's purchase of the Paragon complex on Orchard Road – or acquiring space they previously rented.

By all accounts the Japanese are paying handsomely for this privilege, but thinking long-term. Like other retailers faced with Singapore's small indigenous market, they are betting that tourists – and especially their compatriots – will continue to arrive in force.

Andrew Baxter